



ARMENIA 2012

A YEAR OF CHOICES

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ARMENIA 2012 A YEAR OF CHOICES

This is the fifth year that Civilitas looks back at the year past and attempts to assess the events and trends within Armenia, and around us. It is always a challenge not to reduce this annual publication to a list of events. The intent is to focus on trends and institutional change. Each year, however, it becomes harder to say something new given the slow process of institutional change.

2012 was different only in that there were more choices to be made — by the people and by the rulers. Neighbors to the north made those choices and are living with the consequences, sometimes surprising, but comfortable in the knowledge that the choices were theirs.

In Armenia, in a year that was both an election year and a pre-election year, there were choices to be made by the various political players — to seriously collaborate and compete, or to do the minimum necessary to remain a player. There were choices for the ruling party — to prepare for elections by responding to electors' needs or merely pretending. There were choices for those in government — to nurture a competitive economic environment with room for everyone, or to focus on limiting the field and collecting the crumbs. There were similar choices to be made by the business elite — to profit legally and contribute to the public sector, or to continue to profit illegally and live at the expense of the public sector. Within the neighborhood and

on the global stage, the choices were between visionary engagement and reactive rhetoric. Finally, the active segment of the public, too, had choices to make — which battles to fight, which alliances to make.

In the resultant disappointed environment, the people, too, made choices. They had two ways of responding to disappointment. The Economist Albert Hirschmann said either 'with their feet or by staying put and complaining.' This year, many chose the first. Those who chose the second did so half-heartedly, without hope.

With two exceptions. First, those seeking greater political power and responsibility managed to get past the inability and plain refusal to reach out and collaborate with others seeking change, albeit differently. Second, a small new group, who proudly claimed no interest in politics, nevertheless were both vocal, active and demanding.

There will be more choices to make in the year to come — in Armenia and Azerbaijan and Georgia. Then, the peoples in each of these societies will have to demonstrate that they want the right to make choices and will defend that right.

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The intensifying civil war in Syria, its impact on Turkey, and the Iran–Israel standoff dominated the region in 2012, eclipsing less visible problems in the Caucasus and distracting attention from incipient shifts in policy in the wake of the regime change in Georgia.

Just 500 km away as the crow flies, the Arab Spring had hit a wall in Syria, where the nearly-two-year-long struggle showed no signs of abating. Indeed, in the absence of overt Western aid, the public support to the rebels offered by Turkey and some Gulf countries, and on the other hand support to the regime from Russia and Iran, seemed to do nothing to accelerate a resolution. Instead, refugees from Syria found their way to Lebanon, Jordan, Turkey, the North Caucasus, Armenia, even Georgia in smaller numbers.

In the immediate neighborhood, the role-switching between Russian leaders Vladimir Putin and Dmitry Medvedev did not of itself trigger any changes in Moscow's policy towards the Caucasus. But the advent to power in Georgia as a result of the October parliamentary election of Bidzina Ivanishvili's Georgian Dream coalition was seen as the start of a more pragmatic and realistic approach on Tbilisi's part to relations with Russia in general and the North Caucasus in particular. Ivanishvili named as his special representative for talks with Moscow former Ambassador to Russia Zurab Abashidze, whose first meeting in mid-December in Geneva with Russian Deputy Foreign Minister Grigorii Karasin both sides termed constructive and heralding the start of a new dialogue.

Ivanishvili, reputedly the richest Georgian in the world, was denied Georgian citizenship by

Georgian President Mikheil Saakashvili, ostensibly because he already held French and Russian citizenship. Nevertheless, Ivanishvili's Georgian Dream was elected in a contest that was broadly perceived as free and fair by domestic and international observers alike, and a new beginning in the post-Soviet space.

After his party's win, he was granted Georgian citizenship and became prime minister by decision of the Georgian Parliament, where his party now holds a majority. Given the Georgian constitutional changes passed in 2010, following the inauguration of the new president in October 2013, the powers of the president will be significantly reduced in favor of the prime minister.

Ivanishvili has since walked a fine line between promised change and inevitable continuity. He declared that Georgia should participate in the 2014 Winter Olympics in Sochi. The previous leadership had planned to boycott the games. Ivanishvili also closed the PIK TV channel that was perceived as an anti-Russian channel which broadcast to the North Caucasus. At the same time, the ban in Georgia on Russian TV channels imposed following the August 2008 war was lifted.

In February, in what he called a gesture towards the Russian Federation, President Saakashvili lifted the visa requirement for Russian citizens, allowing them to stay in Georgia for up to 90 days, just as Russian citizens living in the North Caucasus republics have done since 2010. Russia responded in hopeful terms about returning to pre-visa days and diplomatic relations. But Tbilisi's old and new governments both made clear that there can be no question of restoring formal diplomatic relations, which Georgia severed in the wake of the August 2008 war, as long as Russia maintains a diplomatic presence in the breakaway Georgian regions of Abkhazia and South Ossetia. Nevertheless, Tbilisi hoped to begin talks on restoring trade and cultural ties with the Russian Federation even as it continues to seek NATO membership and European Union integration.

In September, however, when the NATO Secretary General declared, in Tbilisi, that it sees Georgia's future in NATO, Moscow responded by noting

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that NATO had learned no lessons from the tragic events of August 2008, and instead continues to encourage Tbilisi.

In March, Russia appointed special representatives to Abkhazia and South Ossetia. The Abkhazia appointee is known for his anti-Caucasus stance and harsh nationalist positions. The South Ossetia representative is at the same time the leader of North Ossetia and a proponent of Ossetian unity.

When the NATO Secretary General declared that it sees Georgia's future in NATO, Moscow responded that NATO had learned no lessons from August 2008

In late August, an incident on the Russian-Georgian border near Daghestan resulted in 14 deaths — three Georgian security personnel and 11 militants, including two Georgians of Chechen background. The sole Chechen who survived the shootout claims the Saakashvili leadership recruited and trained them with the stated aim of infiltrating into Russia, then surrounded and attacked them to enable Saakashvili to boast on the eve of the October parliamentary elections that the Georgian army had neutralized a group of infiltrators from Daghestan.

The ongoing talks between Azerbaijan and Russia on renewing the lease of Azerbaijan's Gabala over-the-horizon radar station hit deadlock in January after Baku demanded a huge increase in the annual rent (from \$7 million to \$300 million). Gabala is officially listed as an 'information-analysis' station, only because Azerbaijani legislation precludes foreign military presence on its territory. Reports in mid-September of a provisional agreement that would enable Russia to continue to use this de facto military facility for a further two or three years at the previous rent after the current lease agreement expired in early December proved wrong, and Russia suspended operations. At the same time, the Russian 102nd base, situated in Armenia, proposed building a similar station on

their premises. This would only partially meet Russia's need, since the significance of Gabala is not just for its information-gathering capacity, but to prevent such capacity being gained by NATO.

Georgia and Azerbaijan reached partial agreement during a meeting between their respective presidents on the sidelines of the Chicago NATO summit in May on the delimitation of their border and access for tourists to medieval monasteries on Azerbaijani territory. Georgian Prime Minister Ivanishvili's visit to Baku in late December yielded agreements to continue the border process and on supplies of electricity to Georgia from Azerbaijan during the first quarter of 2013. The question of Azerbaijani gas supplies to Georgia remains problematic in that Azerbaijan sells gas to Georgia at a competitive price (\$200 per thousand cubic meters), meaning the leeway for a price reduction to Georgian consumers is minimal. On the other hand, privately owned gas distribution networks (one at least is owned by SOCAR's Georgian subsidiary) can charge their own prices (even higher) to consumers. If Baku now decides to strongarm Tbilisi by charging a higher price and the distribution networks increase the price they charge, Ivanishvili will be in trouble since one of his important campaign pledges was to reduce the price of gas.

Despite its self-ascribed Western orientation, Georgia sought to balance between the US and Israel, on the one hand, and Iran, on the other; it did not formally express support for harsher sanctions on Iran.

Relations between Azerbaijan and Iran have been tense for two decades. In 2012, they became tenser still.

Iran accused Azerbaijan of abetting the assassination by Israeli agents of Iranian nuclear scientists and of offering logistical support for possible Israeli and US air strikes against Iranian nuclear facilities. In February, and again in March, Azerbaijan's National Security Ministry claimed to have foiled Iranian-orchestrated terrorist plots to target the American and Israeli embassies in Baku.

In February, Israel confirmed the sale to Azerbaijan of \$1.6 billion in weaponry. This meant

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Azerbaijan had procured 60 Israeli-produced unmanned drones, explaining that they were intended to “liberate occupied territories” from the Armenians. This did not satisfy Tehran, which also accused Azerbaijan of cooperating with Israel’s Special Services and giving them free rein in Azerbaijan proper and Nakhichevan.

In May, protestors gathered in front of Iran’s embassy in Baku and hurled insults at Iran’s religious and lay leadership. This protest took on a different significance when soon after, Azerbaijan’s leadership turned back the representative of Iran’s Supreme Leader, right at the Baku airport.

Tehran immediately recalled its ambassador. Baku reciprocated.

In September, three Azerbaijanis were convicted and incarcerated on charges of planning to kill teachers in a Jewish school. The investigators insisted that the convicts were working for the Iranian Special Services.

In October, Baku made the same accusation against 22 Azerbaijani citizens and imprisoned them for planning attacks on the US and Israeli embassies in Azerbaijan.

Despite these tensions, Azerbaijan’s only land link to its Nakhichevan province is through Iran, and that continues to operate. Also in March, the trilateral meeting of the foreign ministers of Iran, Azerbaijan and Turkey took place in Nakhichevan (which borders Turkey). The three signed a memorandum which included reference to the Karabakh conflict, calling for a quick resolution based on respect for international borders, sovereignty and territorial integrity.

In June, Turkey and Azerbaijan agreed to construct TANAP — the Trans Anatolian Gas Pipeline — to transport Azerbaijani gas through Georgia and Turkey to Europe. This \$7 billion project will circumvent Russia.

Soon after the gas deal was announced, Baku realized that estimates of oil production and oil revenues have begun to plummet significantly. Azerbaijan’s 2013 state budget will for the first time receive more moneys from the oil fund

than oil revenues expected. This is due in part to less oil extraction than was initially expected.

Turkey opened two new consulates in Azerbaijan — one in Gyanja, and the other in Lenkoran. This makes four representations in Azerbaijan, including the embassy in Baku and a consulate in Nakhichevan.

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Iran lived a very difficult year. New international sanctions have come together with louder Israeli threats to de-capacitate nuclear plants before they achieve the final stage of weapons production. These challenges were compounded by the critical blows that Iran’s ally, Syrian President Bashar al-Assad, continued to receive.

Iran underwent another crisis during the year, one that is perhaps most threatening to internal stability. Over 2012, the Iranian Rial was devalued three times on the black market, bringing with it unprecedented inflation and ever-deepening public dissatisfaction with the authorities. According to the International Monetary Fund, this was the first time in 20 years, that Iran saw economic decline. Oil revenues declined by 40 percent, despite high prices on the international market. President Ahmadinejad blamed all this on international sanctions. This complex of problems is sure to have its expression in the June 2013 presidential election.

Turkey’s relations with its neighbors were far from the zero problems goal it had set for itself. If the Kurdish issue ever was just a domestic issue, it was so no longer. And Turkey’s changing relations with Syria both impacted and were influenced by developments in the Syrian Civil War.

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Together with Saudi Arabia and Qatar, Turkey made no secret of its support for the Syrian rebels, to the extent that it secured government consent for one year, to conduct military activities across the Turkish-Syrian border.

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Turkey has experience in cross-border incursions. Most recent and notable were Turkish attacks into Iraq, on Kurdish rebels.

But in 2012, the unbelievable happened. Ankara's relations with the Kurdistan Regional Government in the north of Iraq are far more neighborly, than Ankara's relations with Baghdad. This is part of a complex series of calculations for Turkey. On the one hand, it renders Turkey's domestic intolerance of its own Kurdish population even more unsustainable. This may be one reason that by year's end, Ankara sought the assistance of imprisoned Kurdish leader Abdullah Ocalan to calm the internal furor over the arrest of dozens of political activists, most of them involved in the Kurdish struggle.

Another complication for Turkey, in Kurdistan, is the growing involvement and interest by Israel. Israel is among those neighbors with whom Turkey has more than zero problems, since relations have continuously deteriorated since 2009. In 2012, there was no reconciliation, at least publicly, in spite of international calls. Even the Syrian crisis, which impacts both countries, was insufficient to move Turkey off its intransigent vocal anti-Israeli position, which makes the Turkish government popular domestically and on the Arab Street.

In this environment, the Jewish minority in Turkey is also under pressure from the Turkish Special

Services. Israel, in turn, is furthering relations with Turkey's opponents, including Cyprus.

In June, the Israeli legislature, the Knesset, discussed the Armenian Genocide, in an obvious move to annoy Turkey.

Despite Turkey's public pronouncements labeling Israel a terrorist state for its actions in Gaza in late 2012, Turkish Foreign Minister Ahmet Davutoglu also acknowledged that quiet negotiations are taking place in Switzerland to resolve differences between the two states. When NATO declared its intention to place Patriot missiles at the Turkey-Syria border in December, Turkey indicated that it has agreed to allow Israel to participate in non-military NATO activities in 2013, a departure from previous objections.

Among the six recognized, unrecognized and partly recognized political entities of the South Caucasus, only Azerbaijan did not have national elections in 2012. In March, Abkhazia held parliamentary elections. There were presidential elections in South Ossetia in April and parliamentary elections in Armenia in May. In July, Karabakh held presidential elections and Georgia held parliamentary elections in October.

The controversial elections in South Ossetia produced a former KGB man as president. In Armenia's controversial election, the ruling Republican party gained an absolute majority in parliament. In Georgia and in Karabakh, the opposition parties registered significant gains. In Karabakh, the opposition presidential candidate received nearly one-third of the vote. In Georgia, the opposition party won a majority in Parliament.

THE NAGORNO KARABAKH CONFLICT

Coincidentally, all three Minsk Group co-chair countries held presidential elections this year. In Russia, Putin re-ascended to the chair. In the US, President Barack Obama was re-elected. In France, François Hollande replaced Nicolas Sarkozy.

But the distraction of elections and the co-chairs can't be blamed for the fact that since the May

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1994 ceasefire signing, 2012 was probably the first year when it can be said there were no substantive negotiations.

The deadlock is blamed on a variety of circumstances.

Azerbaijan heightened its insistence on Nagorno Karabakh's right to self-determination only within the context of Azerbaijan's own territorial integrity.

Azerbaijan has begun to publicly reject the first principle of the Madrid document — the right of the people of Karabakh to self-determination through a referendum. At the base of that document, which was the last one presented by the co-chairs, there is the fundamental concept of a referendum (called variously plebiscite or expression of will) which gives the conflicting sides the opportunity to reconcile the seemingly irreconcilable principles of territorial integrity and self-determination.

If Azerbaijan rejects that core principle, then that document collapses, and it becomes unacceptable for Nagorno Karabakh as well. Armenian negotiators say, Azerbaijan only pays lip service to the three principles at the base of the resolution process — self-determination, territorial integrity and abstaining from the use of force. In reality, Azerbaijan only accepts territorial integrity and dismisses the right of peoples to self-determination and the commitment to a peaceful resolution of conflicts, they say.

In the absence of a negotiating process, the positions of the sides (the leaderships and the publics) regarding future compromises becomes even tougher. If years ago, Azerbaijan would at least publicly accept the idea of the right of the people of Karabakh to a referendum, today Baku claims that the Nagorno Karabakh Autonomous Region is occupied by its own people. In the face of such maximalist positions, Armenia and Karabakh, too, naturally harden their positions.

The hardening of positions brings, in turn, additional tension along the entire Line of Contact between Armenia and Azerbaijan and Nagorno Karabakh and Azerbaijan. Tension was paramount

throughout 2012. The ceasefire was violated daily. The Armenian side had nearly a dozen casualties from either sniper fire or diversionary incidents. The Azerbaijani side, too, registered casualties about which Baku rarely makes public statements.

Ankara's relations with the Kurdistan Regional Government renders Turkey's domestic intolerance of its own Kurdish population even more unsustainable

Although there is no official count, experts estimate that since the ceasefire of 1994, Karabakh and Armenia have lost some 1000 soldiers, and an unknown number of civilians. Azerbaijan claims 3000. Still, Azerbaijan does not respond favorably to international calls to pull snipers off the Line of Contact.

In 2012, most casualties resulted from incidents on the northern part of the Armenia-Azerbaijan Line. During the US Secretary of State's June visit alone, the two sides lost nearly a dozen soldiers.

This year, religious leaders also entered the fray. After the June killings, the head of the Armenian Church condemned the provocative actions of the Azerbaijani side and called on the international community to rein in Azerbaijan's militarism. The religious head of the Moslem community in the Caucasus issued a statement saying, "We pray to Allah that we will be able to mount the Azerbaijani flag in Karabakh."

Based on the ever-hardening Azerbaijani positions and their consistently belligerent public statements, coupled with ever-larger arms purchases, it would appear that Baku is viewing war as an alternative to peaceful negotiations. As Azerbaijan sealed the largest-ever military deal with Israel, the Armenian government announced that Azerbaijan is readying for war.

In 2012, Azerbaijan's military budget was \$3 billion — about 8 times the combined defense budgets of Armenia and Karabakh, and far more

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than the combined total state budgets of Armenia and Karabakh. Azerbaijan's own state budget is some \$22 billion.

International experts insist that a new war is possible only once Azerbaijan's gas and oil reserves begin to expire. Until then, they say, it won't risk alienating the foreign companies on its soil, nor endanger the actual physical pipelines which extend not far from the Karabakh-Azerbaijan border.

Only one high-level negotiating meeting took place during the year, and that was in January in Sochi. Russian President Medvedev and the Armenian and Azerbaijani presidents met for the tenth time in such a trilateral setting and announced that serious progress had been made on the basic principles for a resolution.

The European Union offered its support to Russia's mediation, even as it underlined the absence of real progress in the process. It called on the sides to strive for peace, based on the Madrid principles, and expressed hope that its representatives would have the opportunity to visit Karabakh and adjacent regions without preconditions — referring to Azerbaijan's habit of blacklisting those countries whose diplomats enter Karabakh through Armenia.

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No meetings have taken place since Putin's election. The returned president has made no indications that he wishes to continue his predecessor's efforts at trilateral meetings.

But Putin did join with the presidents of the other two co-chair countries — the US and France, when in Los Cabos, Mexico, during a G20 meeting

the three issued a statement calling on the sides to set aside maximalist positions and avoid enemy statements and to reach an agreement based on the fundamental principles.

This was the fifth such statement by the co-chair country presidents. The first was in Denver in 1997, the second in Aquila, Italy, in 2009, the third in Muskoka, Canada, in 2010, and the fourth in Deauville, France in 2011.

The only other activity during the year was the co-Chairs' periodic visits to the region to meet with the leaderships of Armenia and Azerbaijan, as well as Karabakh. There were also meetings with the foreign ministers of Armenia and Azerbaijan.

Armenia and Azerbaijan continued to use the international press and forums to drive home their positions. The unwillingness and inability of the Karabakh population to accept Azerbaijani rule became very clear when the Azerbaijani government managed to secure the return of Ramil Safarov, an Azerbaijani soldier, who during a NATO training course in Budapest had decapitated an Armenian soldier, with an axe. It was not just the return of the soldier, who, in Hungary had been convicted and given life imprisonment. It was the hero's welcome that he received in Azerbaijan which was unequivocally rejected by the international community as incomprehensible and unacceptable. The nature of the discourse around Karabakh and its place within Azerbaijan changed. As one Armenian parliamentarian put it, Armenians no longer have to explain to the world why Karabakh cannot be a part of Azerbaijan.

The international community also noted that the already-complex negotiating process had now a hit a new wall.

In September, in a meeting with the Armenian and Azerbaijani foreign ministers, the co-chairs of the Minsk Group also issued a statement deploring the manner of the Safarov pardon and efforts to deify Safarov as very damaging to the peace and confidence-building processes.

Even the European Parliament weighed in. The US president, too, expressed deep concern and

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demanding an explanation from Hungary, where the opposition had turned the extradition issue into a cause celebre. The NATO Secretary General expressed concern while in Baku, during a joint press conference with President Ilham Aliyev. Aliyev justified his actions as legal and just, and proceeded to award Safarov with military rank, back pay and other perks.

Public reaction in Baku was cause for serious concern for the peace process and regional peace in general. Man-on-the-street interviews justified Safarov's actions, explaining that killing is not good, but killing an Armenian is different.

At the same time, the already-tiny Azerbaijani community of peace advocates found itself in an uncomfortable and untenable situation.

The Safarov affair, coupled with the surprising presidential election in Karabakh, where the opposition candidate ran a real campaign and came away with a respectable 30 percent of the vote, will help the international community view the possible future relationship of the two entities — Karabakh and Azerbaijan — in a different light as unequal in their democratic credentials. The elections themselves were dismissed by international organizations, under pressure from Azerbaijan not to appear to be legitimizing the status quo. The European Union Foreign Policy Chief Catherine Ashton too stated that the constitutional and legal framework within which the elections were being held were not recognized.

However, the statement by the OSCE Minsk Group co-chairs differed from past statements. They made a point of the fact that none of the three co-chair countries recognizes Nagorno Karabakh as a sovereign and independent state. However, the Co-Chairs did “acknowledge the need for the de facto authorities in Nagorno Karabakh to try to organize democratically the public life of their population with such a procedure.” On the other hand, they also said that the election or “the procedures of July 19 in no way prejudice the final legal status of Nagorno Karabakh or the outcome of the ongoing negotiations to bring a lasting and peaceful settlement to the Nagorno Karabakh conflict.”

Two American states – Rhode Island and Massachusetts – however, did pass resolutions recognizing Karabakh, as did the legislature of New South Wales in Australia. The foreign minister of the South American country of Uruguay, in a visit to Yerevan, reinforced the right of Karabakh to self-determination. Uruguay's Parliament Head and other parliamentarians visited Stepanakert.

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Finally, the renovated airport in Karabakh also became a subject of contention. Azerbaijan's repeated statements about the use of force against aircraft using the airport were met by a response from the Minsk Group co-Chairs calling on the sides to preclude use of force, and also dismissing the airport as a possible leverage to demand a change in Karabakh's status quo.

Despite what seemed like a year of negative choices – not to engage, not to negotiate, not to move forward – there was activity among international organizations and civil society actors. The Safarov pardon created serious problems for the peace process, yet under the auspices of several British organizations – notably Conciliation Resources and International Alert, new programs were introduced for confidence building purposes. Notably, the European Union announced the second phase of the civil society program European Partnership for the Peaceful Settlement of the Conflict over Nagorno-Karabakh, a consortium of five European NGOs. They will continue to work with local partners in the South Caucasus on peace-building projects and attempt to help improve conditions for the Nagorno-Karabakh conflict settlement process.

Together with the International Committee of the Red Cross, which is responsible for prisoner issues, and the Halo Trust, which does demining

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work (currently with serious support from the US Agency for International Development), there are no other international organizations stationed in Stepanakert.

ARMENIA — TURKEY

Armenia and Turkey continued to suffer the damages of the frozen state of the Armenia–Turkey protocols. In 2012, official relations between the two countries were at a low point. Even meetings between mid-level diplomats which for two decades regularly took place were no longer held. The foreign ministers of the two countries did not use multilateral gatherings as opportunities for even informal meetings.

Turkey adopted legislation which makes it impossible for Armenian citizens (as well as Syrians, Yemenis, Cubans, Nigerians and North Koreans) to acquire land in Turkey

Instead, the two sides continued to accuse each other. In March, in Germany, the Armenian president acknowledged that relations are worse than they were before his ‘football diplomacy’ began in 2008, and blamed Turkey.

The French Senate’s revisiting the bill to criminalize genocide denial further exacerbated relations. The French National Assembly had approved such a move in late 2011, and the Senate debated it in early 2012. The text of the legislation did not mention Armenians, yet the general assumption and discussion focused on the Armenian Genocide, given that there is already a law that outlaws Holocaust denial. The entire debate came to an end when the French Constitutional Court deemed the text unconstitutional. But not before it had engulfed President Sarkozy, who backed it during his election campaign, and the new President Hollande, who promised to reintroduce it at a later date.

Turkish Prime Minister Erdogan, too, had become embroiled in the debate, calling the measure racist, and accusing France of being biased towards Armenia, and therefore unfit to be a co-Chair of the Minsk Group, mediating the Karabakh conflict.

This was not the only instance where Turkey’s and Azerbaijan’s interests were collapsed into the same rhetoric.

During 2012, Azerbaijanis living abroad, together with expat Turks, organized anti-Armenian demonstrations, the largest of which coincided with the Azerbaijani commemoration of the destruction during the battle over Khojalu during the Karabakh war. Posters accompanied demonstrations in London, Washington and Istanbul. In Istanbul, even the Turkish Interior Minister participated, with a nationalistic and anti-Armenian speech. Prime Minister Erdogan declared that they will not allow the world to forget the “genocide of Khojalu.”

Over the course of the year, Ankara continued to remain actively engaged in the Karabakh issue. In two different official statements, Ankara first condemned the presidential election in Karabakh (held in July) and accused Armenians of “unilaterally trying to legitimize an illegitimate status.” In a second statement, Ankara proclaimed that the opening of an airport near Stepanakert is a provocative act and will damage the negotiations. Perhaps Turkey’s economic and political advances of recent years are what inform such public intervention, and what allow the international community’s tolerance of them. The tolerance even extends to some clear statements, albeit unofficial, that if the Stepanakert airport becomes operational, Ankara may extend the land blockade to the air and not only suspend air traffic between Istanbul and Yerevan, but also close its air space to international flights, making travel longer and more expensive (as was the case for several years in the mid-1990s.)

In August, Turkey adopted legislation which makes it impossible for Armenian citizens (as well as Syrians, Yemenis, Cubans, Nigerians and North Koreans) to acquire land in Turkey. There was no effort to dispel the message inherent in such an announcement.

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In contrast to these discouraging official interactions, Armenia–Turkey programs in the civil society sphere have flourished. This is both to be welcomed, and to be considered as part of a bigger picture. On the one hand, civil society organizations and journalists interact and exchange visits in various spheres, frequently, and with generally positive outcomes, improving person-to-person ties, enhancing reciprocal knowledge and nurturing understanding. On the other hand, according to a 2012 study by the Hrant Dink Foundation, there is an increase in public statements which preach ethnic and religious discrimination and intolerance in the Turkish media. The study included some two dozen media outlets, and the findings showed that the most negative characterizations were of Armenians.

Further, another study issued in May by the Turkish Economic and Social Science Foundation (TESEV) stated that “Armenophobia has been rendered a definitive and virtually inseparable part of the Turkish identity for long years both by the state and the society.”

This can be explained by the persistence of acrimonious and intolerant statements at the highest levels of Turkish government. Thus, useful as the growing number of civil society initiatives are, especially after the protocols were frozen, they cannot replace the absence of normal government-to-government relations, nor compensate for acrimony at the very top.

Turkey’s contradictory policy towards its own Armenian citizens and Armenian legacy was apparent at Akhtamar.

There on the island church, in Van, an Armenian religious mass was allowed for the third year in a row and many came from Istanbul to participate. Yet, today, just as upon its renovation three years ago, neither the island, nor the church, have any sign or inscription bearing the word ‘Armenian.’

On the other hand, for the third year in a row, the presidents of Armenia and Turkey congratulated each other on their countries’ national days. This tradition did not exist before 2010.

Another hopeful development was the third annual April 24 commemoration in the heart of Istanbul. In Taksim Square, hundreds of people, mostly Turks, Kurds and Armenians, gathered to commemorate the day that marks the beginning of the Armenian Genocide, in 1915. Despite a nearby protest demonstration against those mourning the mass killings of Armenians, attendance at this April 24 event has increased each year.

“Armenophobia has been rendered a definitive and virtually inseparable part of the Turkish identity for long years both by the state and the society”

Finally despite the absence of relations, Turkey attempted to facilitate the movement of Armenians from Syria, through Turkish territory, to Armenia. Turkey also allowed an airplane carrying aid from Armenia to Syria to fly through Turkish airspace. Deeper or more sustained assistance, including efforts to secure safety for the Armenian minority stuck between the regime and the rebels was harder to come by, given the absence of open communication channels between officials. Armenia’s role was thus necessarily limited, or non-existent, vis-à-vis Turkey and its active role in developments in Syria. Without a basic familiarity and comfort level between the two countries’ diplomats, without open diplomatic channels, Armenia was limited in its ability to help protect Armenians’ interests in Syria.

Despite multiple unresolved political disputes and closed borders, Turkey remains one of the major importer countries for Armenia. According to official data, the trade turnover between the two countries from January to November 2012 comprised \$191.7 million, a 12.4 percent decrease over the previous year. The actual bilateral trade between Armenia and Turkey is, however, assessed at a much higher level: according to different estimates it might reach as high as \$300 million. During the first eleven months

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of 2012, according to official statistics, Armenia imported \$190.9 in Turkish goods, accounting for around five percent of total imports to Armenia. At the same time Armenian exports to Turkey accounted for just \$800,000. In 2012, both import and export sales dropped over the eleven month period, by 12.3 percent and 18.4 percent correspondingly. The main channel for commerce is Georgia. A portion of goods goes unregistered and is transported by shuttle traders.

ARMENIA — GEORGIA

With Turkey and Azerbaijan now Georgia's main trade partners already for a few years, Georgia's foreign policy priorities are inevitably affected. The main energy pipelines from the Black Sea to international markets pass through Georgia. Georgia is the de facto link between the two

The most important Georgian event — regime change through elections — did become part of public discourse in Armenia, at least for a short while, and temporarily raised some hopes of a positive effect on democratic processes

Turkic republics — Turkey and Azerbaijan.

With Turkey, trade has exceeded \$1 billion annually, with Azerbaijan it is nearing \$1 billion.

These relationships have a significant impact on Yerevan-Tbilisi relations, as do the depth of Armenia-Russia relations and the existence of a Russian military base on Armenian soil.

The Turkey-Georgia-Azerbaijan cooperation will result in Armenia's isolation — intentionally or otherwise. Thus, Armenia has no alternative but to deepen economic relations with Georgia and keep Armenia-Georgia relations at a high level. The Georgian Black Sea ports of Batumi and Poti,

and the Georgian railway are of immeasurable importance for Armenia's economy.

Armenia-Georgia trade remains at a level far lower than the two countries' potential. The share of bilateral Armenia-Georgia trade in total foreign trade of Armenia stood at only 2.2 percent from January to November 2012. At its height in 2007, trade had reached \$134 million, with Armenian exports comprising around 65 percent of total bilateral trade. From 2007 to 2009, the total turnover between the two countries fell by 30 percent, at the same time Armenian exports to Georgia plummeted by 40 percent. Since 2009, bilateral trade showed a slow but upward trend. In the first 11 months of 2012, the total trade turnover between Armenia and Georgia reached \$115 million, which is still three percent less than that of the same period in 2007. From January to November 2012, Armenian exports to Georgia amounted to \$75 million, while imports comprised only \$40 million.

In recent years, as the Saakashvili administration succeeded in fighting corruption, simplifying taxes, generally improving the climate for doing business, Armenia's businessmen began to take advantage of those opportunities. More than 100 important businesses have registered companies in Georgia, leading both Armenian and Georgian press to describe Armenian business as escaping to Georgia. Armenia's leadership calls it business expansion.

Georgia has neither recognized the Armenian Genocide, nor does it debate the recognition issue. On April 24, 2012, however, the Genocide issue created a storm in the Georgian Parliament when an opposition member announced "Our Armenian compatriots are standing outside, demanding that we recognize the Genocide." He reminded his colleagues that in 2011 Georgia had recognized the genocide of the Circassians and turned that into a public relations move. Before the parliamentary finished speaking, another parliamentarian, an ethnic Azerbaijani, accosted him and a brawl broke out. The Georgian leadership said nothing about either the substance of the debate, nor the manner in which it was addressed.

In another policy area that is of critical importance to Armenia, Georgia has adopted a

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stance to satisfy Azerbaijan. On the occasion of Karabakh's presidential election, held in July, Tbilisi posted a statement on the official page of the Foreign Ministry declaring that it "does not recognize the so-called presidential elections" held in Karabakh and fully supports Azerbaijan's territorial integrity and sovereignty. Georgia opted for this solution rather than a more neutral position on Karabakh, in contrast to Armenia's cautious stance on Abkhazia and South Ossetia, despite the Russian-Armenian alliance.

No joint economic projects were put in place during 2012. The construction of the road from Yerevan to Batumi through Javakheti is not even on the agenda, although five years earlier, Yerevan and Tbilisi intended to create a consortium for the purpose of building that road which would pass through Armenian-populated Javakheti and make it possible for Yerevan to reach the Black Sea in 5-6 hours.

Georgia implemented economic projects in Javakheti and those included road construction. Thus, travel time between Akhalkalak and Ninotsminda to Tbilisi has been cut by half. In addition, the road passes through Tsalka, where 13 Armenian villages have maintained their centuries-old traditions and Western Armenian dialect.

Armenian and Georgian media contain fewer anti-Armenian or anti-Georgian diatribes. Greater people-to-people interaction, largely because of Armenians traveling to the Black Sea coast in large numbers, is possibly the reason for better mutual understanding and the formation of positive public opinion in both countries.

Yet, reciprocal perceptions and bilateral relations continue to be adversely affected by still-unresolved matters, including the right to several Armenian churches, the preservation of Armenian heritage sites. Discrimination in social, legal and labor issues continues. However, with the advent of the new government, there was talk that imprisoned Armenian activists and others would receive amnesty.

The year 2012 did not stand out as a great year for high-level bilateral visits. The foreign

ministers each visited once, and the head of the Georgian Armed Forces visited Yerevan once. Ivanishvili visited Baku before year's end, with promises to visit Yerevan and Ankara, in that order, in the new year, in a pattern that has become familiar for Georgian leaders.

The most important Georgian event — regime change through elections — did become part of public discourse in Armenia, at least for a short while, and temporarily raised some hopes of a positive effect on democratic processes.

ARMENIA — IRAN

Armenia-Iran relations were negatively impacted by Iran's economic difficulties, the devaluation of its national currency as well as new stronger sanctions by the US and the EU. Several joint projects have been frozen indefinitely since Iran was to have provided the financial resources.

Armenia and Iran are exploring the establishment of a "Peace Park" around the Araks river, for which Armenia will allocate land from the Meghri Arevik National Park

In 2012, no Armenia-Iran projects got off the ground, not even the Armenia-Iran railway which the Armenian president had announced four years ago.

In October, the 11th session of the Armenian-Iranian Intergovernmental Commission met in Yerevan. During that meeting, Iran's Energy Minister expressed dissatisfaction at the slow pace of project implementation. He observed that obstacles must be overcome without saying which obstacles, or whose obstacles. At the conclusion of the session, the two energy ministers announced that in the Meghri hydropower plant construction groundbreaking would be marked in two weeks which led to a groundbreaking ceremony in which the President participated. Work has not begun.

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Armenia has begun to import oil products by land. Talk of an oil pipeline from Iran to Armenia continues, but like other joint energy projects, nothing specific has been done. The pipeline is to have carried diesel, benzine and airplane fuel from Tabriz to Yeraskh.

Construction of the third high voltage electricity transmission line which was to have been finished in 2011, has not yet begun. Armenia and Iran are exploring the establishment of a “Peace Park” around the Araks river, for which Armenia will allocate land from the Meghri Arevik National Park.

Armenia’s Central Bank refuted the allegations immediately, adding that Armenia’s banks have no correspondence relationship with Iranian banks or financial organizations

Although Armenia–Iran trade is on the increase, the numbers are far from satisfactory for either side. In 2011, those numbers were \$323 million for Armenia–Iran, and \$241 million for Armenia–Turkey where borders are closed. In the first 11 months of 2012, Armenia–Iran trade was \$286 million, a 1.8 percent decrease from the previous year. At the same time, Armenia–Turkey trade was \$192 million. Moreover, over the last five years imports from Iran have always been comparable with that from Turkey, surpassing it only in 2012. In January to November 2012, imports from Iran totaled \$199 million, a modest increase of 2.2 percent. At the same time, Armenian exports to Iran dropped drastically to \$87 million, 10 percent less than the previous year.

The number of Iranian tourists to Armenia decreased this year, largely due to Iran’s economic situation, the devaluation of the Rial and the resultant strict limitations on foreign currency conversions within Iran. Still, those tourists

who came had a visible impact on Armenian tourist destinations, and in Yerevan’s center. At the same time, it became clear that Armenia’s tourism infrastructure – in terms of services and attitudes, required improvement.

International attention turned to Armenia–Iran relations in August when Reuters reported that Iran aimed to broaden its banking activity in Armenia and attempt to circumvent Western sanctions through the Armenian banking system. The report claimed that US Secretary of State Hillary Clinton had explored this issue with Armenia’s leadership during her June visit. A Western diplomat had said that Iran was looking to work with AGBA Credit Agricole Bank, although 15.6 percent of AGBA’s shares belong to the French Credit Agricole Bank. The French categorically rejected the Iranian claims, calling them nonsense.

Armenia’s Central Bank also refuted the allegations immediately, adding that Armenia’s banks have no correspondence relationship with Iranian banks or financial organizations. The Central Bank added that the Iranian Mellat Bank, operating in Armenia since 1996, has seen a more than 50 percent reduction in its capital since 2010. The Bank’s customers are small and medium businesses with Armenia–Iran trade, tourists and students.

In July, President Sargsyan received Iran’s vice-president. In August, during the Non-Aligned Movement Summit, Iranian President Ahmadinejad received Armenia’s foreign minister, who also met with the president of the Iranian Parliament and the foreign minister. Armenia’s foreign minister was in Tehran in April as well and held several high-level meetings with the president, the secretary of the National Security Council and the chief arms negotiator, as well as other officials.

During the year the Iranian president’s special envoy visited Armenia twice. The Iranian interior minister visited Armenia and signed a Memorandum of Understanding and Cooperation with Armenia’s Police Service.

In 2013, both Armenia (in February) and Iran (in June) expect to hold presidential elections.

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Since it is pragmatism and an understanding of the minimal needs of the other side that drives Armenia–Iran relations, changes in administration in either country will have little effect on the policies of either.

ARMENIA — RUSSIA

The Russian–Armenian alliance continued to come under strain as relations between President Sargsyan and Putin remained cool. Putin's personal meeting with former president Robert Kocharian early in the year became a subject of speculation, until Sargsyan secured his own meeting in August. In the fall, Putin's health problems resulted in postponement of his anticipated trip to Armenia along with other foreign travel; but President Sargsyan and President Putin had an opportunity to talk during a CIS summit in December.

A number of developments reflected certain unease in Armenian–Russian relations, although the generally opaque nature of inter-state ties left much room to guesswork.

Russia continued major military sales to Azerbaijan, delivering dozens of upgraded attack and transport helicopters to a country that continued to threaten a war with its ally; there was also talk of sales of new Russian tanks to Azerbaijan. At the same time, as part of its 'balancing' approach, Russia reportedly delivered an undisclosed number of attack helicopters to Armenia.

In September, Armenian and Russian forces, joined by forces from fellow Collective Security Treaty Organization members Belarus and Kazakhstan, held major military exercises in Armenia. Russia also conducts joint exercises with Azerbaijani border guards and naval forces.

This balancing could also be seen in official visits. Russia's foreign minister and leaders of the Russian parliament's upper and lower chambers made back-to-back visits to Armenia and Azerbaijan. In July, the Duma leadership reportedly blocked members from monitoring the presidential elections in Nagorno Karabakh. Earlier, judging by its official statement, Russia

appeared less concerned than the US about the scandal surrounding the return and pardon of the axe murderer Ramil Safarov, as well as Azerbaijan's loud threats to shoot down civilian aircraft flying to Stepanakert.

Armenia continued to perform its own foreign policy balancing act between Russia and the West. On Syria, the most pressing international crisis of the year, the Armenian government did not align with Russia's support for the Assad regime, nor did it join in calls to bring it down, trying to maintain a neutrality that would be beneficial to the Syrian Armenian community.

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Most significantly, Armenia remains ambivalent about Putin's proposed Eurasian Union. Armenia continues its negotiations with the European Union on the Association and Free Trade agreements. This ambivalence will become increasingly difficult to maintain since both the EU and Russia will increase pressure on Armenia to make a choice.

Armenia and Russia also openly disagreed about the Russian state program promoting immigration to Russia from former Soviet republics. Armenians held public protests against the Russian government's policy.

The Russian government appeared to have increased the price for natural gas sold to Armenia from \$180 to between \$220–244 per thousand cubic meters. This price rise was reflected in official customs and tax reports, even as the Armenian government continued to claim at year's end that price talks were not concluded.

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One of Armenia's strategic priorities, the construction of a new nuclear power plant, has interested only Russia, which has promised up to a 50 percent participation in a project estimated to cost between five and seven billion dollars. Although the new plant was to be commissioned in 2016, the expected date of the old plant's de-commissioning, it is clear this deadline will not be met.

The EU postponed a donors' conference saying such a conference would be conditioned by the processes of the upcoming presidential elections

There was an 80 percent decline in direct Russian investments in Armenia in the first six months of the year, but bilateral trade was on track to surpass the \$1 billion level of recent years. In the January to November 2012 period, the total Armenia–Russia trade amounted to \$1.2 billion, showing an increase of 22 percent, compared to the same period in 2011. With nearly \$1 billion imports from Russia in the first 11 months alone, the trade balance is heavily in favor of Russia. Armenian exports to Russia have also increased in the 11 months of 2012 and reached \$254 million, a 30 percent increase over the previous year.

ARMENIA — EU

In February, the European Commission agreed to commence talks with Armenia on a Deep and Comprehensive Free Trade Area. The talks officially began in June, with 14 working groups negotiating the agreement's 15 chapters.

Countries of the European Union continued to account for the largest share of Armenia's foreign trade, amounting to \$1.8 billion in 2011. In 2012, the total trade turnover has declined, amounting to \$1.5 billion, a decrease of six percent over 2011. With nearly 40 percent of total Armenian exports, the EU remains the largest export market for Armenia. In January to November

2012, Armenian exports to the EU reached \$512 million, an eight percent decrease from the previous year. At the same time, Armenian imports from the EU totaled \$1 billion, a decrease of 4.9 percent.

In December, Armenia and the EU signed a visa facilitation agreement thus clearing the path for more exchanges and visits especially by businessmen and educators, as well as students.

Hungary's extradition of the Azerbaijani national who brutally murdered a fellow Armenian student at the NATO English language course in 2004 caused the first major crisis between Armenia and an EU member state. Armenia broke off diplomatic ties with Hungary, just as the EU declined to openly criticize its member state. The European Parliament passed a resolution criticizing Azerbaijan.

Months before that crisis, Prime Minister Tigran Sargsyan openly urged the EU to threaten sanctions against Azerbaijan after it initiated the latest round of deadly skirmishes on the border with Armenia in June. But EU's energy security considerations, which factor in future natural gas supplies from Azerbaijan, appeared to continue to trump concerns over security in the Caucasus.

NATO Secretary General Anders Fogh Rasmussen offered only lukewarm criticism of Azerbaijan, as he made a pre-planned trip to Yerevan and Baku only days after the convicted axe-murderer was freed and promoted.

Armenia remained actively engaged with NATO's mission in Afghanistan, where an Armenian peacekeeping company continued to serve under German command, there were also various activities under the NATO Individual Partnership Action Plan.

President Sargsyan visited Brussels for talks with senior EU and NATO leaders in March and again in June. Sargsyan also visited with the newly-elected French President François Hollande in November. Hollande had received Azerbaijan's leader in September amid protests from French Armenians, in the wake of the Safarov pardon.

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A delegation of French Senators went to both Yerevan and Stepanakert in May and three members of the European Parliament observed the Nagorno Karabakh presidential elections in July.

In late September, EU Commissioner for Enlargement Stefan Füle visited Armenia to encourage reform efforts and to “appreciate Armenia’s active engagement within the Eastern Partnership.” At the conclusion of the visit, he expressed dissatisfaction with processes going slowly. The EU later postponed a donors conference for Armenia to have been held after the parliamentary elections, saying such a conference would be conditioned by the processes of the upcoming presidential elections.

In November, European Commission President José Manuel Barroso came to Yerevan to participate in a European People’s Party event on the Eastern Partnership. Three European foreign ministers — from Sweden, Bulgaria and Poland — followed soon after on a three-country tour of the Caucasus.

ARMENIA — US

The Sargsyan administration continued to benefit from US goodwill inherited from the period of Armenia–Turkey talks. Relations remained generally positive but mostly aimless throughout 2012.

In May, the United States gave a positive assessment to the parliamentary elections that saw President Sargsyan’s party win an outright majority. But the US also criticized the Armenian government for a seemingly politically motivated harassment of former foreign minister Vartan Oskanian, and the Civiltas Foundation, which he founded.

The White House and the State Department issued strong-worded messages that condemned Azerbaijan for releasing and promoting an axe murderer extradited from Hungary, although as of year’s end, the scandal had made no apparent impact on any policy, since even Armenia had resumed talks with Azerbaijan. There was no tangible American effort to promote a change in

Turkey’s policy towards Armenia and the Obama Administration continued to come under fire for avoiding use of the term ‘genocide’ although the presidential statement on April 24, 2012, was one of the strongest ever.

Early in the year, the US government approved financing for the sale of satellite technology to Azerbaijan that could have military communications uses. In June, another sale – of helicopter-based surveillance equipment – was blocked after a senior Congressman raised objections. No public objections were raised to Israeli weapons sales to Azerbaijan, even though some of the systems sold are based on US technologies.

There was no tangible American effort to promote a change in Turkey’s policy towards Armenia

The US–championed sanctions against Iran continued to have a negative impact on Armenia. In August, President Sargsyan dropped out of the Non-Aligned Summit held in Tehran and Iranian–Armenian economic projects were being delayed.

The US aid level to Armenia was expected to remain unchanged at about \$40 million; the House of Representatives proposed \$5 million in aid to Nagorno Karabakh to also include development aid. There were some calls for the US to help Armenia absorb refugees from Syria, but no allocations were made as of year’s end.

Bilateral trade turnover amounted to about \$248 million in 2011, a 28 percent increase over 2010. In the first 11 months of 2012, trade stood at \$210 million, with over \$55 million negative trade balance for Armenia. In the same period, Armenian imports from the US reached \$133 million, a decrease of 2.8 percent. In the same 11 month period, Armenian exports to the US dropped by 16 percent and reached around \$77 million. Overall, Armenia — US trade accounts for only four percent of Armenia’s total external trade.

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Vice President Joe Biden and Secretary of State Clinton were the most senior US interlocutors for Armenia.

In February, Secretary Clinton met with Armenia's foreign minister at the Munich Security Conference and in June, she paid a second visit to the three Caucasus republics. The US-Armenia Joint Economic task force met in Yerevan in October to discuss the standard range of issues from US aid to intellectual property to nuclear energy safety.

Prime Minister Sargsyan came to the US in December, visiting the Silicon valley and top universities in California and Massachusetts; he was also received by Vice President Biden at the White House to "discuss political and economic reforms" in Armenia.

In May, Foreign Minister Edward Nalbandian led the delegation to the NATO Summit in Chicago, when President Sargsyan dropped out for the second year in a row after the alliance refused to change its summit language that privileged territorial integrity in the former Soviet space.

There was a brisk tempo of military exchanges. In March, Defense Minister Seyran Ohanian held talks with his counterpart in Washington; Ohanian returned to U.S. in May to attend the NATO Summit.

In April, Armenian forces held first-ever bilateral exercises with Romania-based US Marines, ahead of Armenian peacekeepers' first-ever deployment under direct US command in Kosovo in July. Visitors to Armenia included the Secretary of the Navy (as overseer of the Marine force in Romania) and senior US European Command officers.

One Senate and two House delegations came to Armenia this year.

Obama's re-election — together with the electoral outcome in Georgia — appeared to mean that the US may remain content with letting Russia continue to play a more prominent regional role; but outgoing Secretary of State Clinton surprised many as she revealed that the United States was "trying to figure out effective

ways to slow down or prevent" the establishment of the Eurasian Union championed by Putin.

OUTLOOK

2013 will see elections in the three recognized republics of the South Caucasus as well as in Iran. In Armenia and Azerbaijan, surprises are unlikely and both presidents will most likely continue in office.

Since 2013 is an election year, Azerbaijani military rhetoric will be heightened. These will be combined with special efforts in international and bilateral relations, attempting to neutralize the principle of self-determination in the negotiating documents, and to weaken the international perception of its being the key attribute in the negotiating process.

For Georgia, the October presidential election will be yet another test of democracy. If Bidzina Ivanishvili and his government are able to organize a free, fair and competitive election, like the parliamentary elections held in 2012, then Georgia will be clearly differentiated from its immediate neighbors.

Iran's presidential election will be conducted in a more complex international and domestic environment. Mahmoud Ahmadinejad cannot run for another term. Thus, in June, the Islamic Republic will have a new president. Although the last word belongs to the Religious Leader, the person, style and rhetoric of the president can impact Iran's relations with its neighbors.

Additional sanctions on Iran will make Iran-Azerbaijan tensions worse. Iran is convinced and concerned that of all its neighbors, it is Azerbaijan that is prepared to become a front for the West and Israel if the nuclear issue were to be resolved militarily.

There may be improvement in Russia-Georgia relations and that can only have a positive impact on both Southern and Northern Caucasus, especially Armenia.

There are no expectations for progress in Armenia-Turkey relations and in the settlement of

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the Karabakh conflict. Ankara continues to link improved relations with Armenia to a change in the status quo in the Karabakh conflict. Such a change is very unlikely.

Azerbaijan and Turkey will work more persistently and in tandem against predictable Armenian issues, such as Karabakh and Genocide denial. They will also attempt to mischaracterize Armenia–Iran friendly relations as an obstacle to the West’s efforts to contain Iran’s nuclear ambitions.

POLICY OPITONS

Armenia’s foreign policy priorities must be better articulated. This year, Armenia must make a choice between European integration and the Eurasian Union. If Armenia has no choice but to join the Eurasian Union, that must be honestly presented to the Armenian public and publicly addressed. The uncertainty will adversely affect relations with both the European Union and Russia.

Given the two closed borders to the east and west, and the UN sanctions against Iran, Armenia’s only full-fledged open border is the one with Georgia. In order to maximally utilize those links, Armenia–Georgia relations must be taken to a new level entirely by promoting flights between the capitals and a much more easily passable border. These must be part of a larger program leading to deeper integration between the two countries at all levels.

Regardless of what changes are introduced in Georgia–Russia relations, Armenia must not only maintain but also deepen good neighborly relations with Georgia. No change of government in Georgia should shake the primacy of Armenia–Georgia relations.

With Iran, Armenia must maintain normal relations and not become entangled in tougher military and economic sanctions.

Armenia must maintain its position of positive neutrality in the Syria conflict, always keeping in mind the physical security of the Armenian community of Syria.

Armenia can and must withdraw from the Armenia–Turkey protocols. The protraction of this frozen situation does not serve Armenia’s interests. The final removal of the protocols will allow the introduction of new instruments to re-address this critical relationship.

In the NK resolution process, Armenians must focus not on endless responses to Azerbaijani charges and provocations, rather on assuring that the international community does not deviate from the fundamental principle of self-determination that is and should remain central to the resolution.

Armenia must demonstrate support for Armenian–Azerbaijani exchange programs for academics, journalists and artists as a form of public diplomacy, and not only in third countries, but also in Armenia and Nagorno Karabakh.

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CHOOSING NOT TO CHANGE

The year began with claims by both the Republicans and the Prosperous Armenia Party that the people would choose them as the winners of the May 2012 parliamentary election. The year ended with the Republicans having won a majority in Parliament, and, as a consequence of various choices by political parties, assured a presidential election victory in early 2013.

Among the political establishment, the year saw some debate on policy choices as well. But the bulk of the political discourse in 2012 centered around the role each party would adopt before, during and after the parliamentary election, and therefore, in the presidential election to come in 2013.

Debate about other choices — social inequalities, judicial transparency, economic monopolies — sometimes, but not always, concluded with expectations of elections. Debate about ways to eliminate the existing economic controls, for example, began early in the year, and opposition voices stressed that elections are the only path toward regime change and removing the monopolies. On the other hand, environmental and social protests intentionally stayed away from discussions about elections and parties.

The 2012 political environment was new and different in that it appeared as if most of the political forces, whether in or out of parliament, seemed to recognize the value of combining resources and presenting a united front. Early

in the year, opposition forces joined together to change the way parliament members are elected. They wanted to do away with the current split system where 41 are elected when they receive a majority of votes in geographical districts (majoritarian members), and 90 are elected from a list of names put forward by a political party (party slate members). They argued that a system that is completely party-based would make for a fairer playing field.

They created what some opposition members called an “unprecedented collaboration.” This was the first time that the Prosperous Armenia Party, a member still of the Ruling Coalition, diverted from the ruling Republican Party’s position and came out in agreement with the idea.

The year continued with “unprecedented collaboration.” Already in January, there was talk that the 10-year-old Heritage Party, headed by former foreign minister Raffi Hovannisian, already with six seats in Parliament, and the newly-formed Free Democrats, formed soon after former foreign minister Alexander Arzumanyan left the Armenian National Movement, with which he’d been associated for nearly two decades, would form a joint slate.

Also in January, the Prosperous Armenia Party, the Heritage Party and the Armenian Revolutionary Federation–Dashnaksutyun joined together in Parliament to request a hearing on the benefits of a party only system versus the existing split system. The three parties argued that this is a way to limit or do away with the large number of big-name, strong businessmen who are easily elected in geographic districts, against less powerful competitors without equal economic and social leverage.

A few weeks later, perhaps in response, the Prime Minister who had only joined the Republican Party while in office, announced that Republicans would have no big name businessmen on the party slate. The next day businessmen-parliamentarians were quick to confirm they will run nevertheless. Nonetheless, hearings were held, and when the bill came to a vote, in February, it did not pass. The system remained the same with a vote of 41 in favor and 70 opposed.

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This was the first major vote in which the Prosperous Armenia Party demonstrably did not side with the ruling party. Either coincidentally, or as a consequence of slightly breaking rank, Prosperous Armenia leader Gagik Tsarukyan, himself a wealthy businessman and philanthropist, saw his personal and business associates come under administrative pressure as early as January.

The 2012 political environment was new and different in that it appeared as if most of the political forces, whether in or out of parliament, seemed to recognize the value of combining resources and presenting a united front.

In February, former foreign minister Vartan Oskanian joined the Prosperous Armenia Party. Oskanian, who had been in government for 17 years, but had had no prior party affiliation, explained that he believed that the Prosperous Armenia Party, with its size and resources, could prove to be a viable alternative to the Republican party. Observers said the Prosperous Party had made a choice — to acquire a new profile, and political clout.

Despite their loss in that all-important vote, the collaboration continued. In March, Levon Ter-Petrossian, first president of Armenia and the head of the Armenian National Congress, which claimed the ‘opposition’ title for itself, referred to cooperation. Levon Zurabyan, Congress Coordinator, explained that the “regime must be isolated.” He insisted that Armenia is heading towards a calamitous situation and a broad political front is essential in order to rapidly address the need to form a legitimate government through free and fair elections.

In February, the Armenian Statistical Service announced the results of the 2011 census. In the previous census conducted in 2001, the population was 3.5 million, of whom three million

were in country. According to the 2011 census, the number of people in country was 2,870,000, dropping by 130,000.

The emigration debate intensified, and with it political accusations about a declining economy and disappearing hope. Public officials, including the head of the Migration Office, minimized the impact of the decrease, saying these are normal fluctuations. Others responded saying that a declining birth rate, no in-migration, and demonstrable out-migration will necessarily lead to a decline in population. Emigration remained the topic of the year.

The ethics of politicians and government workers became a controversial topic twice during the year. In January, President Sargsyan created a high-level Ethics Commission, and appointed individuals proposed by the three branches of government. Many in the media and in and out of opposition dismissed the move, saying those who were appointed were mandated to investigate corruption issues, conflict of interest issues and other ethical violations by members of those same three branches of government.

Later in the year, the new Parliament spent most of one day in December in a brawl over who should make up the majority of the Parliament’s Ethics Commission. Parliamentary regulations give the Ethics Committee majority to the opposition, with two seats reserved for the ruling party. The Republicans had set about to change this by adding two seats to the committee for their own members, thus making the two sides equal. Debate disintegrated into a shouting match on the day the changes were suggested. On the following day, the parliament’s leadership backed away from the proposed changes.

These debates echoed what, in February, the OSCE election observation mission had called ‘extreme distrust between government and opposition.’ That distrust was manifested in months to come as each party proclaimed it would recruit hundreds (or thousands even) of volunteers to monitor the goings-on in the 2000 precincts.

But fundamentally, all other issues aside, for Armenia, 2012 was a year of electoral choices --

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Parliamentary elections in May, and preparation for presidential elections the following year.

ELECTIONS

It was an electoral year for most of Armenia's towns and villages as well. In most of the hundreds of local government elections, there was often only one candidate. The Republican Party won the overwhelming majority of seats. One exception was the election in Gyumri, for mayor. There, a top member of the Prosperous Armenia Party won, with support from President Sargsyan.

In 2005, Armenia had passed constitutional amendments, based on which it moved from a presidential to a semi-presidential system by enhancing the role of the parliamentary majority.

For the ruling party then, the 2012 election threatened to take away their political monopoly. Over the previous five years, the president had enjoyed control over the prime minister and the ministries, as well as the judicial branch, given his party's strong standing in Parliament and a coalition with two other parties — the Prosperous Armenia Party and the Rule of Law Party — to cement that hold.

The ruling Republican Party's fear was that the 2012 parliamentary election might be the testing ground for the constitutional changes and their impact on the nature and form of Armenian government.

Each side wanted to win and to claim legitimacy. This emerged as the primary election campaign issue and eclipsed the serious political, economic, social and foreign policy problems the country faces.

On the other hand, the focus on the election could also be explained by the urgency of the problems themselves. For those who saw a hopeful electoral environment, a transparent electoral process was the way to achieve more legitimate representation in a Parliament that would have to become a truly independent and functioning legislature if it were to seriously tackle acute social and economic challenges.

This attempt to actually create a functioning legislature, with internal checks and balances, was made in a political environment with new alignments. The Republican Party no longer seemed the inevitable, monolithic political power. In the weeks and months prior to the election, the Prosperous Armenia Party sounded more and more like an independent political force, rather than a loyal coalition partner with popularity in the regions, which is what it had been for much of the last five years.

Despite widespread initial incredulity among voters and observers, the Prosperous Armenia Party called itself an alternative and said it was serious about its intentions to secure first place. The party, identified largely with its founder, Tsarukyan, even brought in new faces, among them Oskanian, whose task it appeared was to give the party greater political credentials.

Armenia is heading towards a calamitous situation and a broad political front is essential in order to rapidly address the need to form a legitimate government through free and fair elections.

The Armenian National Congress (ANC) presented itself as a serious contender ready to come in from the street and become a force for change in the National Assembly.

The Armenian Revolutionary Federation–Dashnaktsutyun and the Heritage Party both had expectations as well. Heritage was perceived as the reliable alternative voice and the Dashnaktsutyun remained the only political party with an ideology, a program, a platform and not identified with solely one political figure.

The unprecedented configuration of serious forces raised hopes that even a slightly more fair election could produce a much more balanced National Assembly with natural checks and

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balances built in, with real coalitions, without the ruling party enjoying absolute control over all branches of government as had been the case since independence.

The collaborative spirit of the pre-campaign period extended into the campaign. The driving force was a clear conflation of interests — fair elections where each believed it would receive a respectable proportion of seats. The ANC and the Dashnaktsutyun joined in a historic-first collaboration. The cooperation between the ANC and the Prosperous Armenia Party, too, was unexpected and precedent-setting. After all, it was the leadership of the ANC who, in 1994, declared the Dashnaktsutyun an illegal presence in Armenia, and jailed several of its leaders. As for the Prosperous Armenia Party which was formed during Robert Kocharian's presidency and with, at the very least, his blessing, the ANC-Prosperous cooperation meant setting aside, even if temporarily, the Ter-Petrosian and Kocharian acrimony.

For the ruling party then, the 2012 election threatened to take away their political monopoly

With this in mind, in early April, the Prosperous Armenia Party, the extra-parliamentary Armenian National Congress, and the Armenian Revolutionary federation-Dashnaktsutyun set up a Joint Oversight Body with the stated intention of minimizing electoral fraud and publicizing those violations wherever they occurred.

This joint body — and in fact the entire situation with new configurations and increased expectations — was disparaged by those who insisted that given the auxiliary role played by the parliament in Armenian politics, that ballot would be not so important in and of itself. Some feared that the true purpose of the Prosperous Armenia Party was to pretend to be an 'alternative' simply to woo votes away from the ANC.

Others believed that a win by the Republican Party was inevitable and it would continue to dominate the legislature.

Nevertheless, eight parties and one bloc campaigned, largely without restrictions. The broadcast media, which are largely owned by, aligned with or dependent on one or another of the parties, provided extensive coverage that did not violate the law.

The eight parties were the Republican Party, Prosperous Armenia, Rule of Law, the Armenian Revolutionary federation-Dashnaktsutyun, and Heritage, all of which were represented in the parliament which served from 2007 to 2012, as well as the Communist Party of Armenia, the Democratic Party of Armenia and the obscure United Armenians Party.

The Republican Party entered the election with the widely-held assumption that as the ruling party it would retain its domination of the legislature. The Republicans had 63 of the total 131 seats in the outgoing parliament. In fact, the May 2012 ballot was also seen as a way of clarifying which political figure(s) stood the best chance of winning the presidential ballot in February 2013, in which President Serzh Sargsyan would certainly seek a second term. The president remained closely identified with his party, frequently wearing the party pin on his lapel.

For the Republican Party, international acknowledgement that the vote was free and fair was crucial to dispel any lingering suspicions about the fairness of the 2008 presidential ballot and thus undercut the persistent charges by Ter-Petrosian and his ANC that the current leadership lacks legitimacy. It was also seen as important on the eve of the anticipated free trade talks with the European Union. Both the US and the EU affirmed their interest in ensuring the Armenian authorities delivered on their promise that the election would indeed be free, fair and transparent.

President Sargsyan himself took the lead in assuring the population of his determination to demolish what he termed the "mistaken perception" that successive elections in Armenia are routinely rigged.

President Sargsyan topped the Republican Party list — an extraordinary step for politics in mature democracies and the first time

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an incumbent president has ever done so in Armenia. Then followed the current parliament speaker and the prime minister.

Less than 10 percent of the Republican Party slate was from the business community. Nevertheless, another 30-plus businessmen candidates, either party members or otherwise close to the ruling party, ran in the single-mandate constituencies. The president actively campaigned for them.

The Prosperous Armenia Party, which was founded in 2004 by businessman Tsarukyan, had polled second in the 2007 parliamentary election with 25 seats, compared with 63 for the Republicans, and accepted the latter's offer to join the new coalition government. But beginning in 2010, it had sought to create a new image as a genuine and potentially influential political player. In February, Prosperous joined the other coalition parties to publicly state they would each participate independently in the May election, by fielding separate lists of candidates for the 90 seats allocated under the proportional system.

First on the Prosperous Party list was Tsarukyan, followed by Oskanian, whose public statements on various issues — from foreign policy to economic policy — were perceived as oppositional to the government's positions. All told, including the party chairman, Prosperous Armenia's list of candidates included 40 businessmen.

This was the **Armenian National Congress's** first run for parliamentary seats. The Armenian National Movement, the forerunner of the ANC, registered separately to participate in the 2007 election under the proportional system but withdrew weeks before the vote, declaring its regret that the various opposition forces failed to close ranks in light of the anticipated falsification of the outcome.

The Armenian National Movement is in effect the core of the ANC, which coalesced in the summer of 2008 as a political alliance of some 20 parties that had backed Ter-Petrosian's candidacy in the February presidential election. Ten of them were represented on the Congress's list, two headed by two former prime ministers. There were other veteran political figures on the list, many from

the Ter-Petrosian administrations and some who had made a name for themselves during the four years of street politics in which the ANC had engaged since the 2008 presidential election.

The Armenian Revolutionary Federation–Dashnaktsutyun list numbered 85 names, starting with leading party members who were in the outgoing parliament and including businessmen with and without party affiliation. Absent from the list were several prominent deputies from the previous parliament. The allocation of top slots in the list went to non-party members over prominent and recognizable party loyalists and ideologues.

Heritage was perceived as the reliable alternative voice and the Dashnaktsutyun remained the only political party with an ideology

The Heritage Party proportional list was headed by the party's founder and leader, Raffi Hovannisian, who served under Ter-Petrosian as foreign minister immediately after independence. He was closely followed by the leaders of the newly-formed Free Democrats, many of whom had earlier in the year left the Armenian National Congress. Arzumanyan, who had headed Ter-Petrosian's presidential campaign in 2008, was thus number four on the heritage list.

The Rule of Law Party's list of candidates numbered 178 names headed by its leader Arthur Bagdasaryan. The other three parties that fielded party lists were the **Communist Party of Armenia** (75 candidates), the **Democratic Party of Armenia** (45 candidates), and the **United Armenians Party** (29 candidates.)

None of the parties in the campaign ran as incumbents or on their track record. All presented themselves as agents of change.

This was even true of the ruling **Republican Party**. Although President Sargsyan did enumerate accomplishments and successes of the past

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five years, he spoke more of the need for improvement. For a ruling party to campaign on change meant an acknowledgment of the great popular distrust and dissatisfaction. Rivals responded that for real change then, there would need to be a change at the top.

For a ruling party to campaign on change meant an acknowledgment of the great popular distrust and dissatisfaction.

With the ability to benefit from the availability of resources, both administrative and financial, Republican Party rallies were notable for the overwhelming participation of government employees, with special reliance on the education sector. The media, local observers and international observers remarked on the conspicuous presence of students and teachers at their rallies.

The highly visible role played during the election campaign by President Sargsyan on behalf of the Republican Party, of which he is chairman, was unprecedented. Sargsyan's involvement created the twin impressions that the party's top leaders decided collectively to take a back seat and let Sargsyan campaign virtually single-handedly on the party's behalf, and that Sargsyan was treating the election campaign as the first round of the presidential ballot due in February 2013 in which he intends to seek reelection.

The **Prosperous Armenia Party** was personified by Tsarukyan, whose immense wealth combined with charitable activity had turned him into a celebrity. While Tsarukyan spoke in basic terms about creating a dignified future and helping the country to flourish, Oskanian criticized the president's foreign policy and, most of all, the government's economic policy. None of the Prosperous candidates criticized the Armenian National Congress or the Dashnaktsutyun.

The **Armenian National Congress** campaign seemed to be the natural continuation of the four-year-long series of public rallies and meetings that the public associated with the ANC.

The public demonstrations continued to feature economic and political criticism. Attendance at ANC campaign meetings, especially outside Yerevan, was sparse, however.

Throughout the campaign, **Heritage Party** founder and chairman Raffi Hovannisian remained the face of the party. Heritage criticized the situation in Armenia, in harsh, scornful terms, without direct criticism of the ruling Republican Party. Instead they engaged in aggressive criticism of Prosperous Armenia and the Armenian National Congress. Turnout at the Heritage Party's pre-election meetings was not remarkable.

The **Armenian Revolutionary Federation** had drafted an impressive alternative economic strategy and stressed throughout the campaign that the economic policies of the current ruling party have consistently failed to yield the intended results. Senior party members never passed up an opportunity to criticize the Republican Party or the Prime minister.

None of the other three parties staged campaign rallies, and together they received 1.5 percent of the vote.

The upper limit on election campaign spending stipulated in the Electoral Code is 100 million AMD (around \$242,000) for parties and blocs and 10 million AMD for candidates running in single-mandate constituencies. According to official data, the Republican Party, the Prosperous Armenia Party and the Heritage Party spent nearly that limit, the others less.

These funds do not reflect the continued distribution of cash and goods which remained a part of the campaign process. Whether these were 'gifts' by some and 'bribes' by others remained a subject of argument.

There were other, more effective and widespread violations, including the manipulation of voter lists. The Joint Oversight Body attempted to do away with the most common manipulation: the inclusion of outdated and inaccurate names — those who are deceased or who never existed — in order to enable votes to be cast in their

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names. They appealed to the Constitutional Court to reverse the ruling that prohibits the post election publication of the names of those who actually voted. The ruling Republican Party dismissed the move as a campaign ploy. The Constitutional Court rejected the request, calling it an invasion of privacy.

There were no major complaints about parties' right to assembly. There were numerous charges of abuse of administrative resources were many both during the campaign and afterwards, by local and international observers.

There were also charges that opinion polls were manipulated and became an administrative resource. This was the first time that opinion polls played a role in Armenia's electoral politics, if for no other reason than simply by their quantity and the effort made to legitimize their impact.

Altogether there were seven surveys within four weeks, each with 1000+ respondents from around the country.

Despite the absence of trust in the way polls are implemented, despite a ready dismissal of their results, these polls were broadly covered by the press and their content made known to a large portion of the population.

Except for the very first poll, conducted in March, in all polls the Republican Party and President Sargsyan were the favorites. The Armenian National Congress never passed the six percent mark, and the other parties hovered around those same numbers.

One of the polling agencies bearing the name Gallup, but with no affiliation with the reputable Gallup, Inc. conducted the first-ever exit polls on election days. Carried out in 131 unnamed polling stations across the country, they produced results which were nearly identical to the final outcome, despite a non-response rate of nearly 50 percent. That poll was labeled either suspicious or surprising or expected, depending on one's political take.

The broadcast media readily cited these polls, in line with their consistently controlled, uncritical approach. This fed what the OSCE / ODIHR election

monitoring mission described as "the general lack of confidence among political parties and the general public in the integrity of the election process."

Media coverage of the 28-day election campaign by all media outlets was acknowledged by both domestic and foreign observers to be generally balanced and fair, especially when compared with previous parliamentary, and especially presidential elections. Broadcasters provided almost equal conditions for all participating parties, in line with the relevant provisions of the Electoral code.

Beginning in 2010, the Prosperous Armenia Party, had sought to create a new image as a genuine and potentially influential political player

However, the diametric difference between the normal media environment and the 28 campaign days was the reason for the positive assessment of the media's campaign coverage. Yet, the more consequential, fundamental general media environment was largely ignored by observers.

Multiple but isolated instances of violations were documented by the OSCE's Election Monitoring Mission, including pressure on public sector employees before and during Election Day. There were few instances of physical violence, no blatant threats, and almost no cases of open voting or obvious ballot stuffing, they said.

Across the country, domestic observers did note and record instances of apparent multiple voting. They also noted organized means of influencing the voting process. In fact, one of the new additions to this year's election observation process was the role of the citizen observer and social media. There were a variety of efforts to actually observe and publicly share the results of the observation, in real-time.

The connection between observers and legal procedures remained weak, however. Of the

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violations formally reported by local election commissions or official observers, none were formally recognized by the courts.

About 62 percent of potential voters participated in the ballot, with highest participation from the poorest marzes. The preliminary results were announced soon after the polls closed on May 6, with the Republican Party gaining a clear majority.

They appealed to the Constitutional Court to reverse the ruling that prohibits the post election publication of the names of those who actually voted. The Constitutional Court rejected the request, calling it an invasion of privacy

On May 7, the day after the polls, the disconnect between the high levels of frustration expressed on social media and the complete absence of any sort of public retort was notable. No political parties, regardless of the degree of campaign-period acrimony, made a call for street protests. Indeed, parties generally did not publicly assess the process until later in the week.

Of the nine political forces (eight parties and one bloc) that registered for the May 2012 election under the proportional system, only six had won representation in the new parliament, and a few of them, just barely. According to the official results, the ruling Republican Party of Armenia received 44 percent (664,640 votes) of the party list, which translated into 40 parliament mandates.

The Republicans also won 29 of the 41 majoritarian districts, giving the party a total of 69 of the 131 seats in the new parliament — just three votes more than the simple majority they need to form a new government.

As in 2007, the Prosperous Armenia Party ranked second after the Republicans in the party-list vote. In 2012, too, it ranked second but the

454,673 votes it received in 2012 was more than double its 2007 total.

Prosperous Armenia's share of seats in the new parliament increased to 37 (28 proportional plus nine single-mandate) compared with 25 in 2007 (18 proportional plus seven single-mandate).

The ANC placed third in the proportional vote with 7.08 percent (106,903 votes), marginally over the seven percent minimum required for blocs to win representation in the new parliament. Their numbers were highest in Yerevan (at 11 percent), almost double the number of their votes as recorded in the regions.

The opposition Heritage Party, participating in parliamentary elections for the second time, received more votes (86,996) in 2012 than in 2007 (81,048 votes), but its percentage share fell very slightly from 5.8 percent in 2007 to 5.76 percent in 2012. Heritage, too, fared best in Yerevan, where they received nine percent of the vote.

The Dashnaktsutyun bore the greatest loss in 2012 and barely garnered the minimum five percent to qualify for parliamentary representation. The party won less than half the votes it received in 2007. Consequently, it has just five parliament deputies in the new legislature compared with 16 in the outgoing one.

Rivalries prevented the three opposition parties from winning single-mandate seats. Nowhere did they join forces, rather than split the opposition vote.

The Rule of Law party, too, barely surmounted the five percent barrier, garnering 5.51 percent of the proportional vote and six seats in Parliament. Their response to the significant decline in popularity was not to choose new leadership, but to keep the old leadership, ask the membership to leave the party and choose new members.

The international election monitors focused exclusively on the specific legal, technical and implementation aspects of the election and the extent to which the conduct of the election met Armenia's commitments as a member of the OSCE and Council of Europe.

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They did not assess the environment as conditioned by the domestic political situation. The OSCE / ODIHR preliminary report noted as “an issue of great concern” the “general lack of confidence among political parties and the general public in the integrity of the election process,” but it did not place those misgivings in the context of the polarization of Armenian society following the violent clashes in Yerevan in March 2008 between security forces and Ter-Petrosian supporters protesting the apparent rigging of the outcome of the presidential ballot in Serzh Sargsyan’s favor. Nor did they place those misgivings in the context of the less-than-satisfactory experience of the Yerevan city or other local elections that have taken place in the period between the last nationwide election and this one.

However, the reports were very specific about the nature of improvements and also very specific in their citation of the variety and impact of violations.

The positive observations included the inclusive candidate registration process, a generally calm and peaceful Election Day, the smoothness of counting procedures including opening and voting and counting. The final OSCE / ODIHR report said the elections “were held under an improved legal framework,” “were characterized by a competitive, vibrant and largely peaceful campaign,” and “were administered in an overall professional and transparent manner prior to election day.”

The reports were also very precise about the character of violations. The disappearing ink (placed in passports to prove someone voted and prevent double voting) was a “fiasco” according to the Council of Europe. The deficiencies in the complaints and appeals process were causes for concern, according to the OSCE / ODIHR report. At the same time, it noted “violations of campaign provisions by electoral contestants, including the use of administrative resources and attempts to limit voters’ freedom of choice, [which] created an unequal playing field and ran counter to OSCE commitments.”

Finally, and possibly most significant, the percentage of polling stations where voting was

assessed negatively was 10 percent, according to the Council of Europe, and nine percent according to the OSCE / ODIHR final report. Based on ODIHR’s 20 years of statistics, 10 percent means an election day of “high concern,” said the Council of Europe report.

The positive observations included the inclusive candidate registration process, a generally calm and peaceful Election Day, the smoothness of counting procedures including opening and voting and counting

In addition, one-fifth of “observed vote counts” or 20 percent were assessed negatively. In contrast, in 2007, the conduct of voting was evaluated as very good or good in 94 per cent of polling stations visited, and the vote count as “bad” or “very bad” in nearly 7 percent.

The reactions of the main foreign partners were generally positive. For both the US and the EU, the primary concern is that the ballot should be free and fair and thus contribute to greater democratization. At the same time, they prioritize domestic political stability as a prerequisite for continuity in all of Armenia’s regional and global efforts, in particular, its commitment to improved relations with turkey, and to a peaceful resolution of the Karabakh conflict.

The joint statement released on May 8 by Foreign Policy Chief Catherine Ashton and Enlargement Commissioner Stefan Füle reflected both those concerns. It also repeated the shortcomings registered by the osce observer mission.

“We welcome the efforts by the Armenian authorities to hold these parliamentary elections in a way which represents progress towards more transparent and more competitive elections,” the statement read. “However, the elections also demonstrated the need to address a number of issues in order to fully

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meet internationally recognized democratic standards... We encourage the Armenian authorities to address the shortcomings that were identified by the OSCE / ODIHR as a matter of priority, ahead of the upcoming presidential elections scheduled for next year.”

The EU's subsequent decision to postpone until after the presidential election a donors conference initially planned for this year was intended to underscore the need for the Armenian authorities to implement the OSCE's recommendations for improving the electoral process.

No political parties, regardless of the degree of campaign-period acrimony, made a call for street protests

Visiting Yerevan in early June, US Secretary of State Hillary Clinton similarly said she “was very pleased at the reports from international monitors about Armenia's parliamentary elections last month being generally competitive and inclusive, where candidates were able to campaign for the most part without interference.”

But Clinton too urged the Armenian authorities to “work with the OSCE” to rectify “electoral problems” before the 2013 presidential ballot.

Predictably, local observers did in fact make assessments about the May 6 vote. There were 27,000 domestic observers from 54 non-governmental organizations, according to the Central Electoral Commission. Their views did not always correspond with those of international observers.

They all noted the same violations: fading ink, overcrowding, open voting, coached voting, some “observers” and “proxies” without appropriate documentation and identification, inaccuracies in voter lists including the names of persons who were deceased, or who have been absent from Armenia for a long time, or the inclusion of names of those from nearby villages or buildings.

The Armenian Helsinki Committee together with 10 other non-governmental organizations (NGOs), including the Helsinki Citizens' Assembly Vanadzor office, the Open Society Foundation-Armenia, Transparency International Anti-Corruption Center, and the Cooperation for Democracy Center released a joint statement on the elections. The statement identified as positive the provision by the mass media of equal conditions for all parties during the election campaign, regulation of the distribution of printed campaign materials, and the procedures regulating voting processes in polling stations. Nevertheless, it stated with regret that serious actions were not implemented to “provide fair elections where the will of voters can be freely expressed.”

The 10 Armenian NGOs noted that “bribes, the abuse of administrative resources, political pressure exerted on government employees and private organizations, and the use of many other illegal mechanisms had a huge impact on the election process and election results.” The statement acknowledged a reduced number of “traditional” violations such as ballot stuffing and violence, but noted a new and improved mechanism which many called “people stuffing” — that is, utilizing double voting and other means to produce the desired ballots.

Thus these NGOs repeated that “a first and essential pre-condition for ... democratic elections in Armenia” is the publishing of the names of those voters who did in fact vote.

The Joint Oversight Body, too, (consisting of the Armenian National Congress, the Prosperous Armenia Party and the Dashnaktsutyun) formed during the election campaign for the express purpose of overseeing the voting itself issued a statement concluding that the parliament formed as a result of the elections “does not reflect the true picture of popular support for the [various] political forces.” They based this on what they termed the “extremely dubious” voter lists and the official voter turnout figures.

The Republican leadership said repeatedly that the election was unprecedentedly free and fair, as is appropriate in the 21st century. To substantiate that claim, they adduced the

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preliminary evaluations of the election monitors, both international and domestic, who concluded that this election differed significantly from earlier ballots in terms of the improved level of organization and the fact that voting on May 6 proceeded in a calm and orderly fashion.

Several prominent Prosperous Armenia members criticized the outcome, indicating that the results did not respect the people's will.

The ARF–Dashnaksutyun statement noted that the elections did not reflect the people's will or the real correlation between the political forces.

At the same time, they conceded that a huge majority of Armenians “did not make a free and conscious choice,” but accepted bribes or yielded to pressure from the authorities and voted for the ruling party because of poverty and the adverse social conditions in which they live.

Heritage Party leader Raffi Hovannisian announced that the parliamentary elections “delivered a nationwide abyss deeper and more ominous than ever before.... The incumbent regime has imposed in unprecedented manner a cult of complicity upon large segments of the Armenian public, and despite its own democratic rhetoric has comported itself and the elections in defiance of civil liberties, constitutional rights, and an unfettered expression of the national will.”

The Free Democrats, who ran within the Heritage list, and who were established last year by long-standing Ter–Petrossian supporters who quit the ANC, issued a statement saying, “The will of the people was subjected to a torrent of bribes.” Like the Dashnaksutyun, the Free Democrats reached the conclusion that “the electoral violation mechanisms have been polished and are not applied in the polling stations, but outside and prior to election day, using all administrative and financial potential.”

Speaking on May 8 at a post-election rally on Freedom Square, ANC leader Levon Ter–Petrossian, who declined his parliament mandate, said his earlier assertion that each successive election in Armenia is worse than the previous one has been proven true. In order to counter the vigilance of

election monitors, Ter–Petrossian continued, every time “the criminal regime ingeniously invents new and unexpected mechanisms for fraud.”

One of the new additions to this year's election observation process was the role of the citizen observer and social media. The connection between observers and legal procedures remained weak

The Constitutional Court received a formal appeal from the Armenian National Congress to annul the results of the proportional list vote on the grounds of widespread fraud, including vote-buying and multiple voting. The appeal was rejected.

The alignment of forces within the new parliament became clear only on May 24, when Prosperous Armenia Chairman Tsarukyan formally announced that he did not consider it expedient to enter a new coalition with the Republicans. At the same time, Tsarukyan stressed that his party intends to play “a strictly constitutional, balanced role” in political and public life.

Other changes took place. Despite a requirement that every sixth name on the party slates be women, there is no requirement that every sixth member of a party's delegation be a woman. Thus, a number of women who were in fact within the elected range, on the party lists, forfeited their positions in favor of others, all male.

Prosperous Armenia's decision left the Republican Party of Armenia and its partner Rule of Law with a total of 75 parliament mandates between them. This gave them an absolute majority and complete responsibility.

Most laws, including the annual budget, are passed by a simple majority, providing that at least half the 131 deputies (or 66) are present and voting to constitute a quorum. The non-

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coalition parties (all but the Republicans and the Rule of Law) have 53 votes together and can, if they choose, present a serious challenge and alternative.

The Dashnaktsutyun bore the greatest loss in 2012 and barely garnered the minimum five percent to qualify for parliamentary representation

Still, the ruling party has demonstrated that it can summon the necessary quorum and votes when needed. They did so in October, when the Prosecutor chose to continue with the case against Vartan Oskanian, even after his election as a Parliament Deputy. With a majority vote, Oskanian was stripped of immunity and open for prosecution. The case remained open through the end of 2012, and continued to be branded political by local analysts and international observers, including the foreign media.

The remainder of the year was spent on a guessing game — who would run for president.

The four big unknowns that warranted following were Levon Ter-Petrossian, Robert Kocharian, Gagik Tsarukyan and Vartan Oskanian. In the end, none of them ran.

The anti-climactic announcements came in December after months of very public consultations among parties in what seemed to be a direction that would lead to a unity candidate as an alternative to the incumbent president. The expectations — and to some extent the not-so-coy promises — did not come to pass.

In early December, Tsarukyan announced that neither he, nor any of his team — and that seemed to include Oskanian — would enter the contest.

Robert Kocharian kept quiet throughout. And Levon Ter-Petrossian announced quite late in the process that he too would not become a candidate again. He would not participate in

a process that will legitimize Serzh Sargsyan's re-election, he said. This left his erstwhile prime minister and head of the Freedom Party, Hrant Bagratyan, to throw in his hat. He was joined by political scientist Andrias Ghukasyan, Paruyr Hayrikian, an imprisoned dissident in the Soviet days and on the political scene since the independence movement, as well as independent candidates Aram Harutyunyan, Arman Melikyan, and Vardan Sedrakyan.

The Dashnaktsutyun, too, for the first time since 1991, decided not to compete, claiming that the choice had already been made and the results are known.

The choices had been made. There was to be no competition from the larger players.

The field remained to Raffi Hovannisian, who had made clear his intent to run. His Parliamentary coalition partners, the Liberal Democrats did not support him nor offer a candidate of their own, saying these elections could not lead to regime change.

MEDIA

In early 2012, Reporters Without Borders issued the annual Press Freedom Index, which saw Armenia jump 24 points. This reflected a calmer, more peaceful environment regarding journalists. During 2012, there were only two notable instances of journalists charged — one in Yerevan and one in Karabakh. Both were dropped.

There was no notable change in the newspaper sector. Broadcast media configurations remained the same. The Dashnaktsutyun affiliated media — print and broadcast — suffered financial pressures and contracted in size and coverage. The newspaper ceased publication. Government-supported or affiliated television stations enjoyed technological expansion. Online sources grew in number, but most remained news aggregators, with some opinion pieces and blogs. Investigative journalism remained the mission of one organization.

This calm uneventful environment was the outcome of the same approach adopted in the run-up to the parliamentary election —

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administrative resources and pressures used to assure a controlled and self-restricting system with many players — leaving a sophisticated, non-violent plural playing field. By 2012, the financial support offered to broadcast and online media had already produced a predictable system: no holds barred criticism of whoever is considered opposition, more restrained but ongoing criticism — to serve as a release valve — for those who have earned the public's ire, and no criticism of the top elite, their family or interests.

ARMY

The Armenian public remained deeply engaged in what seemed to be the Armenian Army's main challenge — to reduce the number of non-combat related deaths. In 2012, this issue was not just a matter of public discussion, but also several court cases.

The cases are followed not just by members of the soldiers' families, but by a particularly active and persistent NGO, the Army Today.

Most of the deaths in question are labeled 'suicides' by the authorities. This is a charge that most families reject, claiming rather that they are either cases of murder or forced suicide. These claims are often substantiated by physical traces on the bodies.

During the year, what started as tense stand-offs between the army leadership and the victims' defenders, resulted in a cease-fire of sorts. This is either because the level of distrust is so deep that the reciprocal charges have no impact. Or, more likely, because the sides believe each has achieved some level of understanding by the other side. The evolution became obvious when the Defense Minister stated that officer training and officer promotion must become the tools by which to increase the ranks with qualitatively superior staff.

This problem is highlighting tensions between the older, traditional officers and those wishing to move to a civilian-led, more publicly transparent defense establishment. Even the military prosecutors have adopted a more

flexible position in court, admitting to evidence incorrectly secured. Paradoxically, there continues to be greater public awareness of these military violations even as their number continues to decrease.

The sniper attacks in June, along Armenia's northeastern border with Azerbaijan, raised questions about the readiness and preparedness of Armenia's fighting forces.

Three soldiers died and half a dozen were injured over several days of ceasefire violations. These violations were also a first — bringing the nearly daily infractions directly to Armenia's border, and not Karabakh's. Public reaction included statements by former soldiers and organizations that they are prepared to man Armenia's borders. This came not at the expense of public opinion about the army. On the contrary, international and domestic opinion about the Armenian forces remain positive. Of all the fighting forces in the region, the Armenian forces are considered the best-trained, most professional and combat-ready.

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This was combined with other examples of positive public opinion regarding the army. The Defense Ministry's Public Council included some new, independent thinkers, and tried to raise its perception in the eyes of the public. Although there is still no readiness to consider a professional army, given the continuing unresolved Karabakh conflict, the Armenian military has begun to accept professional officers, at certain ranks. In addition, the semi-annual draft calls are less controversial, there is more faith in the health-related deferment process, as well as in the equitableness of the draft process in general.

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Armenia remains engaged with both the Collective Security Treaty Organization and NATO. In October, Armenia ratified the CSTO agreement on the admissibility of non-CSTO member countries placing units of military significance on member countries territory. There was no broad debate either within or outside Parliament.

During the year, there was some limited debate over the usefulness of NATO's Individual Partnership Action Plan, with detractors claiming that the only modifications made to Armenia's armed forces are made to those units which serve directly with NATO's peacekeeping forces.

POLICE

Armenia's new police chief, appointed at the end of 2011, is attempting to indicate changes within the police force. Most of his efforts are perceived as superficial, beginning with new uniforms, and including the creation of visible substations throughout the capital. The comparison with Georgian road police remains the measurement against which changes are expected from the Armenian force.

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Various traffic controls, including automatic cameras and speech checks, have resulted in decreased interaction between citizens and police, thus also decreasing the opportunities for bribes and corrupt behavior. Preferential treatment has not disappeared, and traffic rules continue to be broken with impunity by those who believe they can. Yet, there is a visible decrease in undue harassment.

Police reforms were not taken very seriously after a journalist who had published a photo indicating a legal infraction by the police chief was criminally charged on an alleged traffic matter. A public outcry resulted in the charge being thrown out. But the skepticism did not wear off.

At the same time, legal proceedings held against two top-level police officials, which ended with their conviction, was not perceived as an effort to reform the system. Rather, the public read the events as an internal battle between the previous and current guard.

There were fewer public demonstrations and fewer incidents of undue force used by police against citizens.

CIVIL SOCIETY

The year kicked off with a new brand of civil society activism as a core group of young environmentalists occupied Mashtots Park in central Yerevan from January to early May, opposing the municipality's all-too-opaque process of granting permits and allowing the construction of semi-permanent retail stalls. The law enforcement authorities reacted by dispatching police squads to guard the construction in progress. The persistence of activists in a stand-off with police to protect their right to peaceful protest brought the attention of many citizens, public figures, artists and even the Human Rights Defender

The resolution to months of negotiation and peaceful disobedience came when President Sargsyan, joined by the Yerevan mayor, paid an impromptu visit to the park, ordered the mayor to dismantle the constructed stalls on aesthetic grounds. Activists and legal commentators were quick to point out that Armenia's Constitution and the Law on Local Self Governance, and the Law on Yerevan as Capital City, clearly set out parameters for local self-governance based on which a presidential decree conflicted with municipal rights.

The unprecedented coming together of activists—individuals with no organizational affiliations—set the tone for the rest of the year in civil society activism. Individuals, linked by alternative content and space for discourse online, helped by the organizing power of social media, marked a new kind of public interest activism, forming short-term and ad-hoc alliances to influence policy, elections, and public opinion.

CHOOSING NOT TO CHANGE

The burden and responsibility of mobilizing citizens seemed to move from formal NGOs and community organizations to individuals acting on their own and in small clusters. Mushrooming instances of activism included cultural preservation issues such as the famed produce market in the center of Yerevan, the Roman-style circus and other buildings, as well as the relocation of cultural monuments from their original locations around Armenia to the Museum of Armenian History in Yerevan.

Environmental protection efforts were the most visible. The year started when hundreds of activists caravanned to the mining site in the Teghut Forest, which served all year as the symbol for mining interests receiving disproportionate support over environmental needs.

If the environmental and other initiatives were continuations from last year, the popular sentiment against unrestrained illegal activities by oligarchs rose to the surface following the death by beating of a young doctor. Vahe Avetyan and two colleagues were violently attacked by guards at a popular restaurant facility. The colleagues survived but he died of wounds inflicted by the security personnel. The restaurant is owned by the family of parliament member Ruben Hayrapetyan, who was forced to resign under public pressure. The matter remains in court, with protracted delays.

Crowd-sourced election observations in May were another expression of the engagement of individual citizens in civic action.

Most initiatives lacked strategic will and vision. In many of the cases, activists disagreed on structure and objectives, and in many situations refused to come together with organizations and formal groups, such as political parties, aligned with their interests, out of fear of being mislabeled.

Civil society organizations continued to push forward their long-term advocacy campaign (started in 2009) on reforming and overhauling legislation governing the non-profit sector. The campaign gained renewed momentum after the parliamentary elections. A coalition of several dozen groups worked with the Ministry of Justice

to craft a white paper on long-term strategies for non-profit sector development. The paper which was completed in late 2012, was slated for government consideration and approval before the presidential elections in February 2013. The process of delivering this common vision was interrupted briefly when a Public Council-prepared (at the behest of President Sargsyan) concept paper raised questions on the lack of coordination in the government apparatus. Given the source of the concept document, many observers sounded alarms of rapid backsliding in democratic norms, in line with government initiatives on non-profit organizations in the Russian Federation. The preemptive and boisterous opposition to the Public Council document rendered it dead on arrival.

One-fifth of “observed vote counts” or 20 percent were assessed negatively

The US Agency for International Development (USAID) Civil Society Sustainability Index registered progress, and placed Armenia (4.0) in second place in the Eurasia sub-category of the Index just behind Ukraine (3.5). Many activists and analysts, however, agreed that while the ranking was an indication that there had been sector-wide movement toward progress, serious structural and political impediments remained in place for long-term progress and sustainability.

The political impediments in fact seemed to grow in 2012 as pressure was placed on the Civilitas Foundation, an organization governed by Armenia's non-governmental sector legislation. Investigations commenced in connection with the political pressure on Vartan Oskanian, who established Civilitas in 2008, and CivilNet.am, an independent media site, in 2011 and by the end of the year, stretched to what the National Security Service claimed was protecting Civilitas's rights, from Oskanian. Civilitas said its rights had not been violated, and a government agency did not unilaterally have the right to define a civil society organization's interests and take steps to 'defend' them, citing this as a dangerous precedent. The case continues.

CHOOSING NOT TO CHANGE

DOMESTIC OUTLOOK

If there are no surprises, then Serzh Sargsyan will be elected. But that election will introduce more questions than answers. The main question will be how the political forces will be configured, and the make-up of the government after the election. The nature of the relationship between authorities and opposition will be determined accordingly.

Elections are unlikely to be free and fair. Administrative resources, bribes and other methods of election fraud are certain to be utilized because the authorities will be seriously challenged to secure a respectable number of voters and votes.

Regardless of post-election developments, the three parties not participating in the election — Prosperous Armenia, Armenian National Congress and the ARF-Dashnaktsutyun — will review their positions and re-organize in order to restore the confidence of their electors.

Depending on the Republican Party's approach to the 2017 and 2018 elections and its appetite for holding on to power, its actions and relations with other political parties will either be inclusive or competitive. In that context, the Republican Party may even consider introducing changes to the constitution to pursue that goal.

Despite the authorities' promises to further deepen democratization processes, serious progress cannot be expected given the absence of checks and balances and the Republican Party's absolute hold on power.

POLICY OPTIONS

Given the population's deep disenchantment and sustained emigration, regardless of the election outcome, the new authorities must use the post-election period as a new beginning and attempt to change the unhealthy environment in the country.

The ruling party obstructed efforts of the opposition parties to review the make-up of the Parliament to remove the majoritarian provision and allow for an entirely party-based election process. The

Republicans must return to that issue and through open debate, arrive at constructive change.

Through intrigue and pressure, the authorities succeeded in emptying the political field and assuring their own re-election. The civic activists and others who will need to enter the political arena will have to work harder to secure a legislative environment for new political configurations to take shape.

The opposition parties must attempt to sustain the environment of understanding and collaboration that was created during the election year, by seeking common solutions to the most important social, political and economic problems.

The media's successful implementation of the electoral law and opening of the media field for the limited 28-day campaign period under the watchful eyes of the international observers must be allowed to continue year long thus contributing to the formation of open and healthy discourse.

INCONSEQUENTIAL GROWTH

In 2012, the second wave of the global economic crisis seemed to have passed, but the economic environment around the world remained uncertain and unpredictable. The prolonged global debt crisis combined with the consequences of the 2008 financial crisis led to a contraction in demand and dampened global growth prospects even more. The evolution of the global economy continued to depend on two sets of choices — one facing the developed economies, the other challenging the emerging economies.

The main dilemma before the developed economies was the same as in 2011 — how to balance between growth and debt-reduction. For them, the main policy recommendations were that these nations focus on short-term economic growth while targeting mid-term fiscal adjustments, continued stabilization of the banking and financial sectors, and also structural reforms. Some countries registered limited success in achieving these goals; others continued to struggle. For most of them, the policy of choice to stimulate growth remained monetary policy through quantitative easing. But this generally failed to achieve the desired goal.

The challenge facing emerging economies was how to maintain their dynamics of growth. For China, the biggest of the emerging powers, the challenge remained making the necessary demand adjustments focusing on domestic consumption to minimize the global trade imbalances.

In 2012, Armenia's challenges and policy choices did not fall squarely in one or the other track, but a mixture of both. The end-of-year economic activity rate of seven percent was not manifested in other macroeconomic indicators, such as poverty reduction, tax revenues, increase in personal income and standard of living. During the year, the International Monetary Fund, too, expressed certain reservations about the revised activity rate projections.

Economic developments in Armenia were erratic, punctuated by pre-election promises and hopes, rising inequality, shrinking foreign direct investment, greater dependence on resource-based industries, and ever-deepening structural constraints.

Following the May parliamentary elections, the new government (which comprised mostly the old government ministers) presented its economic program and, later in the year, a new budget.

Both were seriously criticized by the four non-coalition parties represented in parliament; they argued that neither the program nor the budget were based on a clear ideology or policy direction. Both documents were extremely conservative, and could not stimulate economic growth or satisfy public expectations. Despite the government's insistence that Armenia's debt-GDP ratio and level of inflation are not obstructions to fiscal and monetary policy, its policies were and remained restrictive by keeping borrowing costs high and reducing the budget deficit even below the admissible three percent of GDP.

Both the program and the budget manifested the government's risk-averse cautionary approach. This triggered the opposition's calls for a more expansionary fiscal and monetary policy, a higher minimum wage, and lower interest rates to stimulate real growth and create jobs.

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THE ECONOMIC PICTURE

During 2012, Armenia's economic growth prospects were revised several times both by the government and by international organizations. The Armenian government's 2012 growth forecast was initially 4.2 percent, while the International Monetary Fund projected 4.3 percent. However, the first three quarters saw a bountiful harvest and successful exploitation of Armenia's largest mine, and this brought an upward revision of the real growth forecast to 6.2 percent by the International Monetary Fund and to 7.1 percent by the government. In absolute numbers, the nominal Gross Domestic Product in 2012 is expected to have reached approximately four trillion AMD (USD \$10 billion.)

Despite the impressive economic activity index rates from January to November 2012, the fundamental issues of the Armenian economy remained unresolved. Economic growth in 2012 resulted from one-time and temporary factors and was not based on long-term and sustainable policy decisions. Growth based on such volatile and short-lived causes, such as favorable weather conditions for agriculture and the exploitation of non-renewable natural resources, could not have the potential to trigger long-term economic development.

Despite the impressive economic activity index rates from January to November 2012, the fundamental issues of the Armenian economy remained unresolved

Overall, during January–November 2012, **economic activity** in Armenia increased by 7.1 percent as compared to the same period in 2011. The month-to-month fluctuations resembled that of the previous years, again reflecting the high level of seasonality and the low diversification of the economy. Food, beverages and extracted materials comprised around 74.5 percent of production in Armenia during January–November 2012. With 14.6 percent growth from January to November

2012, mining and its derivative industries were the cornerstone of economic development in Armenia. During the same period, the service sector grew by 11.1 percent and agriculture by 8.3 percent. The growth in these sectors spilled over to other sectors of Armenian economy. Production of electricity and consumption of gas, for example, saw an increase of 14.1 percent during the 11-month period, and production of the water supply increased by 33.8 percent during the same period.

According to Central Bank surveys, despite an increase in the economic activity index, **consumer confidence** in the third quarter of 2012 decreased by 4.5 percent as compared to the same period of the previous year and by 2.9 percent compared to the second quarter of 2012. Moreover, in 2012 consumers had significantly less favorable buying intentions and more pessimistic attitudes towards the future of the Armenian economy.

Inflation fell in 2012. According to the 2013 state budget, average inflation for 2012 is expected to reach 2.4 percent, compared to the 4.5 percent projected in the 2012 state budget. According to the official methodology, price fluctuations in the food market account for around 53 percent of average inflation, while prices of services and non-consumer products form 31 and 16 percent of inflation, respectively. As a result, during January–November 2012, the overall increase in price levels was dampened by lower fruit (21.6 percent) and vegetable (6.5 percent) prices and amounted to a mere 2.5 percent compared to the same period in 2011.

Despite being within a manageable range, inflation in Armenia contains high socio-economic risks. Thus, even though the average inflation rate from January to November was benign, during the same period the price of sugar increased by 12 percent, confectionery prices rose by 11.4 percent, coffee and tea by 12.1 percent and meat products by 7.3 percent. Given that the meat consumption norm is met only among the top 10 percent of society, and for the rest, meat consumption is 40 percent below the norm, and also given that sugar is a necessary commodity, these price growth trends are worrisome.

The prices for non-food items were mostly conditioned by significant price increases for

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both petroleum and diesel. From January to November 2012, petroleum rose 10.6 percent and diesel 9.1 percent compared with the same period of the previous year. Another negative trend affecting one of the high value-added export-oriented sectors of Armenia's economy was rising gold prices, both on the international and, consequently, in Armenian markets. In the first eleven months, jewelry prices shot up 17.3 percent, and as a consequence, demand decelerated and the sector shrank by 12.5 percent. Jewelry exports during the first nine months of 2012 fell by 10 percent to \$125.2 million. The clothing and textile sector experienced a rather high 8.6 percent price increase during January–November 2012. Prices in the service sector also increased, affected mainly by 13 percent fee increases for legal and banking services and 8.9 percent for healthcare.

In 2012, the sources of inflation in Armenia continued to be microeconomic in nature and were conditioned by supply-side pressures. The consequences of the price increases, however, lead to macroeconomic tensions, such as stagnation in affected economic sectors (e.g. jewelry) and social consequences for the population (e.g. higher prices for meat and sugar). In other words, prices in Armenia increased not because consumers decided to spend more, but because of variations in supply and in prices in specific markets.

Years of consistent inflation since the 2008 economic crisis have resulted in a continuous drop in **purchasing power** for most Armenian households, hitting the poorest segments of the population especially hard. Overall, consumption by the richest 10 percent of households is 8.5 times greater than consumption by the poorest 10 percent. Even more disturbing is the fact that for this poorest 10 percent, consumption of all food products, with the exception of bread, is below the norms set by Armenia's Ministry of Health.

2012 saw both a rise in **average household income**, as well as an increase in the **income divide**. The per capita monetary income of the richest 10 percent of households exceeds that of the poorest 10 percent by around 15 times. A difference greater than seven is seen as a source of social tension. Moreover, the gap between monetary incomes of the richest

and the poorest has widened since the crisis. The official poverty rate registered a miniscule annual decrease and according to the latest available data is at 35 percent, down from 35.8 percent previous year. In other words, according to the National Statistics Service, more than one third of the Armenian population continues to live in poverty. Further, the share of the extremely poor in the population has increased and now comprises 3.7 percent: over 120,000 people in Armenia — the extremely poor — live on less than \$2 a day.

Years of consistent inflation since the 2008 economic crisis have resulted in a continuous drop in purchasing power for most Armenian households

In Armenia, the minimum **consumer basket** is 46,566 AMD (nearly \$125.) In 2012, the **minimum monthly wage** was only 32,500 AMD (nearly \$81). Households living on a minimum wage spend their entire monetary income on food products, while an average Armenian family spends 52.7 percent of its income on food items. Around 55 percent of those below the poverty line live in households where more than two family members are employed. A bill increasing the minimum wage by 2,500 AMD monthly (around \$6) was passed this year, under heavy criticism for being both unfair and insufficient: even with the increased minimal nominal wages those receiving minimum wages can afford only 75 percent of the minimum consumer basket.

2012 — the year of parliament elections and presidential pre-election — was expected to bring about a 6.2 percent increase of **average nominal salaries** and a 0.1 percent decrease in unemployment. In January–November 2012, nominal monthly minimum wages, as compared to the same period of the previous year, increased by 5.2 percent, comprising 118,408 AMD (\$295). The financial sector continued to be the leader with the highest paying jobs in the labor market with average nominal wages comprising 305,269 AMD. Nominal wages in Information Technologies (with 260,024

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AMD) and mining (with 257,839 AMD) follow the financial sector in offering top paying jobs.

The service and retail sectors hired the greatest number of employees during the first nine months of 2012. Despite the slight decrease in the official unemployment rate, in 2012 the **unemployment rate** continues to be at threatening levels: the share of unemployed among Armenia's working-age population varied from 20.1 percent in the first quarter of the year to 16 percent in the third quarter. Some 39 percent of those unemployed have never had a job.

Even with the increased minimal nominal wages those receiving minimum wages can afford only 75 percent of the minimum consumer basket

Socio-economic tensions, in their turn, continued to lead to out-migration. In 2012, around 43,000 more people left the country than entered. That is essentially the same as Armenia's state migration agency's estimate for each of the last five years.

2012 has been a positive year for Armenia in **international ratings**. Armenia significantly improved its position both in the World Bank Doing Business ranking and in the World Economic Forum Global Competitiveness Index. According to the World Bank annual ranking on the ease of doing business, Armenia improved its position by 18 points, ranking 32 among 185 states. The major categories that saw improvement were protecting investors (+ 73 points), ease of paying taxes (+44 points), ease of getting electricity (+42 points) and ease of receiving construction permits (+3 points). Despite considerable improvement of the rating in paying taxes, where Armenia rated 108 out of 185 countries, that category remains the major challenge to doing business. Other categories which continue to hamper doing business in Armenia are "trading across borders" and "enforcing contracts." Getting electricity, although less difficult, remains an obstacle as well.

In terms of global competitiveness, Armenia improved its index position by ten points, appearing 82nd among 144 states in 2012.

Armenia raised its indexes considerably in goods market efficiency (+36 points) and macroeconomic stability (+31 points). At the same time, Armenia dropped in the all-important categories of "infrastructure" and "technological readiness." Moreover, according to the World Economic Forum report, the Armenian executives who were engaged in the assessment of the competitiveness of the Armenian economy considered corruption (around 16.9 percent of the interviewees), inefficient governance (13.6 percent), access to financing (12.7 percent) and tax regulations (10.5 percent) as the most problematic factors for doing business in Armenia.

Despite improvements in global rankings, entrepreneurship in Armenia remains a challenge, especially for small and medium businesses. According to official data, there are 172,000 enterprises registered in Armenia, and 52 percent of these companies – mostly small businesses – are not operational. According to the Global Competitiveness Index, corruption, an inefficient government bureaucracy, tax regulations and the absence of judicial independence remain the most problematic factors for doing business.

In contrast to improved ratings on international scales, **foreign direct investment** has slumped by around 53.8 percent in the January to September period compared with the corresponding period in 2011. Direct investments from nearly all countries declined significantly. During the first three quarters of 2012, the largest investor, Russia, invested 79.9 percent less and the second largest investor, France, 55.2 percent less than in the same period of the previous year. The United States, previously the third largest country in terms of foreign direct investment volume to Armenia, reduced its investment by 85.7 percent. On the other hand, the inflow of foreign direct investment from Switzerland increased from \$0.3 million to \$38 million. Approximately 90 percent of the Swiss investment was directed into mining industries. Overall, mining and telecommunications, amounting to \$75.5 million and \$49.2 million respectively, accounted for 34.1 percent and 22.2 percent of total foreign direct investments.

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In spite of improving positions in a number of sectors, Armenia in 2012 remained problematic, according to the Transparency International **Corruption** Perception Index: Armenia scored 34 (on a scale where 0 is perceived to be highly corrupt and 100 is perceived to be very clean.) With this score Armenia shared 105–112 places among 176 countries. Education, the police and the courts were assessed as the most corrupt sectors.

Industrial output in January–November 2012 reached one trillion AMD (\$2.5 billion), mostly in mining, metallurgy, tobacco products, beverages and furniture. Recycling became one of the fastest growing industries, growing 2.7 times in the first eleven months of 2012 compared to the same period in 2011. However, the share of recycling in total industrial output remains negligible, amounting to only three billion AMD. The Central Bank said that by year's end, the sector would achieve 8.5 to 10.5 percent growth.

The industrial sector's major problem remains low diversification and dependence on external markets. Production output for most goods was sporadic. In 2012, the government again highlighted several industries as priority sectors — including IT, tourism, agriculture, and mining.

Retail remains the largest sector of Armenia's economy. In January–November, the retail turnover reached 1.14 trillion AMD (\$2.8 billion), marking a growth of 2.2 percent compared to the same period in the previous year. But given the 2.5 percent inflation rate, real retail trade during the eleven month period did not change significantly. Accounting for around 65.5 percent of the total retail sales, shops and supermarket chains continued to dominate the sector, driving agricultural and open-air consumer markets out of the sector. Overall, the retail sector in Armenia is highly consolidated and monopolized, with nearly all major retail channels controlled by businessmen with government connections.

Due to favorable weather conditions, **agricultural output** reached 787.8 billion AMD (\$1.9 billion) during the first eleven months of 2012, growing by impressive 8.3 percent compared to the same period last year. Crop production contributed the largest share of this growth at 12.8 percent, while the livestock sector increased by 3.2 percent.

Despite the impressive growth rate, the structural issues of the sector remain unresolved: the productivity level of the sector continues to be among the lowest in Armenia's economy. The agricultural sector in Armenia is fragmented and consists of a large number of micro and small-scale subsistence-driven farms and households. Moreover, being the largest employer (about 39 percent of the population of working age), the sector is still producing far below its capacity.

Armenian executives considered corruption, inefficient governance, access to financing and tax regulations as the most problematic factors for doing business in Armenia

According to the National Statistical Service, during the first eleven months of 2012, the **service sector** amounted to 870.6 billion AMD (\$2.2 billion), showing an increase of 11.1 percent against a growth rate forecast at 3.5 – 5.5 percent. Information technologies and telecommunications remain the most productive sector. By the end of 2012, 25 percent growth was expected in a sector with some 350 companies, employing 10,000 people.

After suffering severe losses in the global crisis, the **construction sector** is about half of its 2008 size. The Central Bank forecast a 2.5 to 4.5 percent increase in construction in 2012, yet during January–November the sector contracted by a further 0.7 percent, and by the end of the year is expected to hit its lowest level since 2006. Around 16.2 percent of the sector is state-funded and a further 8.4 percent are financed by loans from international organizations. With around 24.4 percent decrease in funding as compared to the same period of the previous year, the World Bank remained the biggest sponsor of construction among the international organizations in January to November 2012. At the same time, the Asian Development Bank and the German Development Bank increased their construction funding four times. Humanitarian aid-supported construction contracted by around 79.4 percent.

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In 2012, **tourism** enjoyed yet another good year with an 9.4 percent increase, to 603,074, in the number of international tourists visiting in January to September. The main source countries of arrivals to Armenia are Russia (17.2 percent), the US (13.1 percent), France (8.7 percent) and United Kingdom (8.5 percent). According to official expectations, by year's end, tourism was to hit the 800,000 visitor mark, compared with 758,000 in 2011.

The US, previously the third largest country in terms of foreign direct investment volume to Armenia, reduced its investment by 85.7 percent

The **external trade** turnover during January to November period of 2012 reached \$5.13 million, growing by 3.5 percent compared to the same period in 2011. The trade balance deficit reached nearly \$2.5 billion, a slight increase of 0.5 percent. During the first nine months of 2012, Armenia's top three trading partners were the Russian Federation with 23.6 percent, Germany with 7.5 percent and China with 7.4 percent of Armenia's trade turnover. Accounting for around 19.6 percent of Armenian exports and 25 percent of imports, Russia remained both the most important buyer of Armenian goods and the biggest source of imported goods to Armenia. Moreover, during January–November 2012 total turnover with Russia increased by another 22.1 percent. During the same period, the total trade turnover with the countries of European Union fell by six percent, and comprised around 29.5 percent of total external sales. Trade turnover within the region remains negligible and sporadic; trade with Georgia constitutes only 2.2 percent of the total external trade turnover of Armenia, while Turkey and Iran account for 3.7 and 5.6 of the total foreign trade respectively.

Triggered mainly by sales of food products, the overall value of **exports** from Armenia increased by 6.7 percent, reaching \$1.3 billion, during the

first eleven months of 2012. At the same time, the export sales of other major export-oriented sectors plummeted — jewelry by 11 percent, metals by 8.9 percent and mining products by 1.2 percent drop. The three sectors along with food and beverage production constitute around 82 percent of Armenian exports.

The top two external markets for Armenian goods were Russia with 19.6 percent of total export sales and Germany with 11.3 percent, followed by Bulgaria with 9.4 percent and Belgium accounting for 9.3 percent. Due to low diversification of the export-oriented industries, which are mainly concentrated around such low value-added fields as mining and metallurgy, the success of Armenian industry remains vulnerable to developments in world economy, in particular the price of metals.

In January–November 2012 **imports** grew by 2.5 percent, reaching \$3.8 billion. The import structure saw almost no change: the main imports remain energy products, machinery and transport equipment. The top three sources of imported goods to Armenia also remained the same: Russia accounting for around 25 percent of Armenian imports, China with 9.3 percent of imports and Germany with 6.2 percent.

Between January and December 2012, **the Armenian dram (AMD)** depreciated against most major currencies. In 2012 the average annual exchange rate against US dollar devalued by 8 percent and reached 402.1 AMD: 1 USD, as compared to 372.5 AMD:1 USD in 2011. Despite its ups and downs, the Euro also showed an upward trend: with an average exchange rate of 532.3 AMD:1 Euro in December 2012 as opposed to 504.6 AMD:1 Euro in the corresponding period of the previous year. The annual exchange rate in 2012 reached 516.54 AMD: 1 Euro, 0.4 percent less than that of the previous year. During January–December 2012 the AMD depreciated by around two percent against the Ruble. Despite the relatively stable exchange rate and the far higher interest rates paid on AMD deposits than on foreign currency deposits, the Armenian public has less trust in the AMD than in the USD and Euro; as of November 2012, foreign currency deposits comprised 2.3 times AMD deposits.

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INSTITUTIONAL CHANGES

As 2012 was an election year, it necessarily affected the pace of the government's announced reforms. The government chose to focus more on the solution of specific contained problems rather than on structural change. The improvement registered in certain macroeconomic indicators was not the result of long term strategy or structural reform; rather, it was the consequence of short-term conditions, as well as one-time government intervention in one or two sectors. Subsidies for fuel and fertilizer in the agriculture sector, temporary exemptions from Value Added Tax for large industrial companies were reflected in positive economic activity.

The notable long-term reform of 2012 was the consolidation and clearance of business-related legislation. The Regulatory Guillotine program, with \$2 million in financing from the international community, had started at the end of 2011. The project aims to reduce by 30 percent the 26,000 laws which regulate businesses, and simplify another 30 percent. The goal of the project is to remove, in a short timespan, the number of the unnecessary regulatory measures and normative acts and reduce inefficient expenses.

This year, as last, fiscal policy reform focused on **tax and customs administration** and tax collection. Some steps were undertaken, including the introduction of the risk-based inspections, with enterprises divided into three levels of likely risk and the list of companies to be audited are to be published. The success of this effort will depend on implementation, which is where Armenian legislation is chronically ineffective.

The customs service continues to be marked by arbitrariness and inconsistencies. This can be explained both by a lack of commitment by officials and existing gaps in the customs code.

The government's 2012 intent was to bring the tax and tariff revenue to GDP ratio to 17.36 percent, up from the 17.1 in 2011. In other words, the expected increase in the tax to GDP ratio was a mere 0.26 percentage points. Even the government's action plan, meager as it is, had targeted a 0.3 – 0.4 percentage point rise annually.

Armenia lags significantly behind its neighbors in this indicator. This lukewarm commitment to reform is probably why the government's implementation was assessed as unsatisfactory by the International Monetary Fund. The IMF stated the obvious — by providing equal conditions for all players, the business environment will improve and lead to a recovery of the Armenian economy. These equal conditions must apply to tax and customs administration as well.

Education, the police and the courts were assessed as the most corrupt sectors

The transition to such an environment is rendered difficult, or nearly impossible, because the **necessary reforms** will most hurt the economic and political elite. Government officials, responsible for implementing reforms, are often those most at risk of the impact of those reforms. Yet, they are the ones who must mandate the changes — both in legislation, and especially in implementation. 2012 was no exception — although the period prior to the parliamentary elections and the period prior to the presidential election might have obliged alternative actions, an easing of the environment and decreasing dissatisfaction. On the other hand, such moves would have resulted in weakening the resources of those in the elite whose support was necessary to securing the election (or re-election) of the elite. Thus, the pre-election periods of promises hope did not translate to implementation and action.

This year, with EU financing of \$1.45 million, German and Lithuanian experts have worked with the State **Anti-Trust** Commission to build capacity in order to better protect the interests of consumers against price fixing. As a result, legislation increased the commission's powers. Nevertheless, the chronic problem of weak implementation has impeded prevention of unfair price manipulation.

Despite a 2011 launch date, the Voluntary **Pension Fund** system has still not been introduced. Although most of the legal framework is in place, the private sector remains unprepared to solicit and manage funds. The fundamental impediment

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is the absence of sufficient interest from outside investment institutions. Yet, the continuing delay in the start of the voluntary pension fund management embodies risks for the entire pension fund system, since the Mandatory Pension Fund system must go into operation in January 2014, and the period until then, was to have been used to overcome hurdles and enable smooth management.

The top three sources of imported goods to Armenia remained the same: Russia accounting for around 25 percent, China with 9.3 percent of imports and Germany with 6.2 percent

Within the framework of pension reform, payroll tax procedures will change in 2013. A single employer deduction will combine mandatory social contributions and income tax. In addition, all accounting must become electronic.

As a result of these changes, in 2013 employers will be obliged to pay an additional 775 AMD per 100,000 AMD in salary. Government calculations indicate that the increase will be compensated by reduced administrative expenses incurred by making separate payments.

GOVERNMENT PROGRAM

Most cabinet members stayed in place after the May elections and the formation, by law, of a new government. That government presented its development program for the next five-year period. The program passed with only the ruling Republican Party and its coalition partner Rule of Law voting in favor. The other four non-coalition parties voted against the program.

The government program revolves around three priorities.

The first is raising **economic competitiveness** as the primary prerequisite for long-term stable growth. The government plans to continue

efforts to improve the business and investment environment, expand innovation technologies, provide equal conditions for all market players, as well as facilitate proportional development of the regions outside Yerevan.

The second priority of the government program is to develop **human capital**. For this purpose government plans to improve access to quality education, to health and cultural services, to reduce the causes of poverty and inequality among the socially vulnerable by assuring access to education and employment, and to create favourable conditions for the preservation of Armenia's spiritual religious and cultural heritage.

The third priority of the government program is **institutional capacity building**. In order to strengthen human capital, the government plans to implement actions to strengthen public institutions, regulate the internal and external activities of various institutions to avoid redundancies, active cooperation between the private and public sectors, as well as focusing on "defining the rules of the game and providing quality service" in government operations.

The government program for 2012–2017 targets five to seven percent in annual GDP growth and a tax collection increase of 0.3–0.4 percent of GDP annually. Finally, the government program foresees an eight to 10 percent reduction in poverty. This means that in 2017, poverty will hover between 25 and 28 percent, or equal to the 2007 level — leaving one out of every four people in poverty.

Although the program's passage was a foregone conclusion, given the Republican Party's absolute majority in Parliament, nevertheless pre-vote discussions were substantial and critical.

The four other parties agreed that the program did not address the fundamental problems facing the country, and did not offer corresponding solutions. They pointed out that the same government which had achieved none of its economic goals was now proposing another program, probably equally ineffective — since there was no specific targeting of poverty reduction, the causes of emigration, or job creation.

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OUTLOOK

Economic prospects, globally for 2013, appear much rosier than those of recent years. If those projections come true, Armenia's two biggest economic partners -- the EU and Russia -- will register economic growth and that will obviously be beneficial to Armenia.

The World Bank projects a 4.3 percent growth in Armenia's economic activity, while Armenia's government projects 7.1 percent. Armenia's optimistic projection can only be realized if there is a fundamental change in the government's ideology and policies. This will improve the business environment and re-attract foreign direct investment, which fell decidedly in 2012.

Following the presidential election, one of three developments is possible: a new government with a new program, the old government with a new program, or the old government with the old program. The last is the most likely and most undesirable since it will mean a continuation of the policies of the past five years and a deepening of the economic stagnation and institutional deficiencies.

In 2013, Armenia's economic challenge will remain the same -- that the intended economic growth be reflected in macroeconomic indicators such as poverty reduction, job creation and higher wages, together with a significant improvement in the tax collection to GDP ratio, and finally, implementing real structural change.

POLICY OPTIONS

Given the inefficiencies of the government's policies of the past five years, in the post-election period, they must set aside electoral sentiments and rhetoric, seriously assess their programs and dare introduce clear changes thus proposing new solutions to the problems facing the country.

Inflation problems or price increases and their solutions must be viewed within an expansionary fiscal and monetary policy that puts the focus on economic growth, job creation and improvements in the population's standard of living.

Assuming the incumbent president is re-elected, he will have the opportunity to make good on his election promises and remove the obstacles to economic growth -- corruption, nepotism and monopolies.

In 2013, Armenia may be offered significant assistance opportunities -- the possible convening of an EU Donor Conference, and the re-start of the Millennium Challenge Program. In the pre-election, election and post-election periods, Armenia's authorities must do everything possible to meet the conditions required to receive those opportunities so that those funds flow into Armenia's economy.

The EU Association Agreement as well the Deep and Comprehensive Free Trade Agreement must be concluded. This process cannot be allowed to impact the tough decision it faces regarding the Eurasian Union.

THE REGION IN FIGURES

ARMENIA

GDP Growth: 6.2 percent The Armenian president's probable re-election will introduce new questions.

Inflation (annual average): 2.4 percent The nature and make-up of the government, its inclusion or exclusion of the four parties not in coalition at the end of 2012, whether any of those parties will join the new government and form a new coalition, all these will determine the nature of government and opposition relations. Armenia's main economic challenge will remain to overcome the already entrenched elite economic interests. Expectations from the public will be high given the pre-election period promises and the free hand a second term president has.

GDP: \$10.2 bn

GDP per capita: \$3036

Population: 3.0 m*

On the foreign policy front, Armenia will face two major challenges. By year's end, after the conclusion of both Armenia's and Azerbaijan's presidential elections, the co-chair countries will be more assertive in expecting movement on the Karabakh resolution process. Armenia will be confronted with the need to make a clear choice between European integration and Eurasian Union membership.

AZERBAIJAN

GDP Growth: 3.9 percent The outcome of the Azerbaijan presidential election is almost a foregone conclusion. But during the year, Azerbaijan will be under the international spotlight. Domestic human rights and other issues will be highlighted; the opposition, although tiny, will gather momentum and attract attention, suppression will be more consequential.

Inflation (annual average): 3.0 percent

GDP: \$71.0 bn

GDP per capita: \$7727

Population: 9.2 m

With a more optimistic global economic forecast, oil prices will remain high, from which Azerbaijan will benefit, although future expectations have been downgraded. Azerbaijan will have a second term in the Security Council and will continue to use that seat to promote its positions on Karabakh, but as in the past, with no great impact. Karabakh will remain the top foreign policy agenda item for Azerbaijan, and election-year means both a buildup in both military capacity and rhetoric. Azerbaijan-Iran tensions will be exacerbated, with toughening on the nuclear issue. Azerbaijan may choose a position further threatening to Iran.

GEORGIA

GDP Growth: 6.5 percent Georgia will be in a very precarious situation. On the one hand, they reaped the benefits of changing a government, through a representative ballot. The events that followed however, including persecution of the previous leadership, can reverse the positive sentiment. Precisely for this reason, it's too early to count Saakashvili out. Much depends on Ivanishvili's handling of the contradictory and extreme expectations. The main foreign policy agenda item will remain Georgia-Russia relations. On the one hand, there is the opportunity to reset the relationship. On the other hand, there is a danger of domestic backlash if the reset takes place at the expense of serious compromises on the Abkhazia and South Ossetia issues. NATO and EU relations, in light of this reset, will become more challenging and will require a serious balancing act.

Inflation (annual average): 0.2 percent

GDP: \$15.8 bn

GDP per capita: \$3514

Population: 4.5 m

* Armenia's population figure is based on the 2011 census conducted by the National Statistical Service of Armenia.

THE REGION IN FIGURES

RUSSIA

GDP Growth: 3.7 percent Optimistic economic projections will keep oil prices high, reduce the need for economic reforms, and will further embolden Putin in his third term in the presidency. This return for a longer hold on power on the one hand raised discontent internally and on the other hand came with expectations of change. Same-leadership fatigue is visible, regardless of actual actions, which will lead to declining popularity, and in response, efforts to introduce greater social and economic opportunities. The noisy start of his return, and the lack of reform prospects will continue to aggravate civil engagement and civil rights.

Relations with Armenia will, to some extent, be conditioned by Armenia's handling of the Eurasia Union membership issue. Given the unevenness in Armenia-Russia relations, the absence of a warm personal relationship between the leaders will impact the broader relationship between the two countries. Putin will maintain a much more cautious and less engaged position regarding Karabakh than Medvedev's unprecedented nearly dozen trilateral meetings.

TURKEY

GDP Growth: 3.0 percent The Erdogan-led Justice and Development Party will enter its tenth year, attempting to continue with the impressive economic development, which over this decade brought Turkey from 40th to 17th place. Internally, the Kurdish issue is most important. Given regional reconfigurations, the Turkish leadership will continue with new attempts at negotiation. However, the Kurds are emboldened by political and economic successes in Iraq and Syria, making them more influential. The failed zero-problems-with-neighbors policy will continue to impact relations with Armenia. Turkey will continue to tie Armenia-Turkey relations to Karabakh. Constitutional change will remain an issue and Erdogan will continue to strive for a more powerful presidential seat in the 2014 election.

IRAN

GDP Growth: -0.9 percent With Ahmadinejad's stepping down, as determined by the Constitution, a new, less contentious president which may alleviate some of the international tensions. This could be Iran's opportunity to renegotiate the nuclear issues. The new president will be the target of greater expectations regarding the economic decline and depreciation of the currency. Any improvement in Iran's relations with the West will benefit Armenia. Iran will be more attentive to regional projects, especially affecting those stalled with Armenia. International pressure on Iran will continue, despite developments in the nuclear issue. Given the choices it has made in its Middle East alliances, especially in light of developments with its ally Syria, tensions with the West will continue.

